BUDGET

SUPPLEMENT

BUDGET OF THE UNITED STATES GOVERNMENT

Fiscal Year 1997

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THE BUDGET DOCUMENTS

Budget of the United States Government, Fiscal Year 1997 contains a summary of the President's budget proposals. This document was released on February 5, 1996.

Budget of the United States Government, Fiscal Year 1997—Supplement contains the Budget Message of the President and information on the President's 1997 budget proposals.

Analytical Perspectives, Budget of the United States Government, Fiscal Year 1997 contains analyses that are designed to highlight specified subject areas or provide other significant presentations of budget data that place the budget in perspective.

It includes economic and accounting analyses; information on Federal receipts and collections; analyses of Federal spending; detailed information on Federal borrowing and debt; the Budget Enforcement Act preview report; current services estimates; and other technical presentations. It also includes information on the budget system and concepts and a listing of the Federal programs by agency and account.

Historical Tables, Budget of the United States Government, Fiscal Year 1997 provides data on budget receipts, outlays, surpluses or deficits, Federal debt, and Federal employment covering an extended time period—in most cases beginning in fiscal year 1940 or earlier and ending in fiscal year 2002. These are much longer time periods than those covered by similar tables in other budget documents. As much as possible, the data in this volume and all other historical data in the budget documents have been made consistent with the concepts and presentation used in the 1997 Budget, so the data series are comparable over time.

Budget of the United States Government, Fiscal Year 1997—Appendix contains detailed information on the various appropriations and funds that constitute the budget and is designed primarily for the use of the Appropriations Committee. The Appendix contains more detailed financial information on individual programs and appropriation accounts than any of the other budget documents. It includes for each agency: the proposed text of appropriations language, budget schedules for each account, new legislative proposals, explanations of the work to be performed and the funds needed, and proposed general provisions applicable to the appropriations of entire agencies or group of agencies. Supplemental, rescission, and adjustment proposals for the current year are presented separately. Information is also provided on certain activities whose outlays are not part of the budget totals.

A Citizen's Guide to the Federal Budget, Budget of the United States Government, Fiscal Year 1997 is an Office of Management and Budget publication that provides general information about the budget and the budget process for the general public.

Budget System and Concepts, Fiscal Year 1997 contains an explanation of the system and concepts used to formulate the President's budget proposals.

AUTOMATED SOURCES OF BUDGET INFORMATION

The information contained in these documents is available in electronic format from the following sources:

- The budget documents are available on CD-ROM from STAT-USA and the Government Printing Office. For more information, see the order form at the back of this document.
- The budget documents can be accessed using a computer modem as well as on the Internet through the U.S. Department of Commerce's STAT-USA information service. There is no charge for use of this service when used to obtain budget information.

  BBS Access: Set your computer communications software parameters to 8-bit words, no parity, and 1 stop-bit, then use your computer to contact STAT-USA's Economic Bulletin Board (EBB) at one of the following modem numbers:

  2400 bps (202) 482–3870
  9600 bps (202) 482–2584
  14400 bps (202) 482–2167

  When connecting to the EBB, use the word GUEST as your login userid. At the EBB's main information menu, select the [P]residential option for a list of budget documents that are available for online viewing or downloading to your computer.

  Internet Access: Budget documents are available through STAT-USA's Internet service using the *file transfer protocol* (ftp), *gopher,* and the *World Wide Web* (WWW) at the following addresses:

STAT-USA ftp address	ftp.doc.gov/pub/BudgetFY97
STAT-USA gopher address	gopher.doc.gov/BudgetFY97
STAT-USA WWW URL	http://www.doc.gov/BudgetFY97 /index.html

  For more information on access to STAT-USA information services, call 1–800–STAT–USA.

GENERAL NOTES

1. All years referred to are fiscal years, unless otherwise noted.
2. Detail in this document may not add to the totals due to rounding.
3. At the time of this writing, five of the 13 appropriations bills were not enacted, and the programs covered by them were operating under a continuing resolution. For these programs, references to 1996 spending levels in the text and tables incorporate the Administration's proposed adjustments to the continuing resolution levels.

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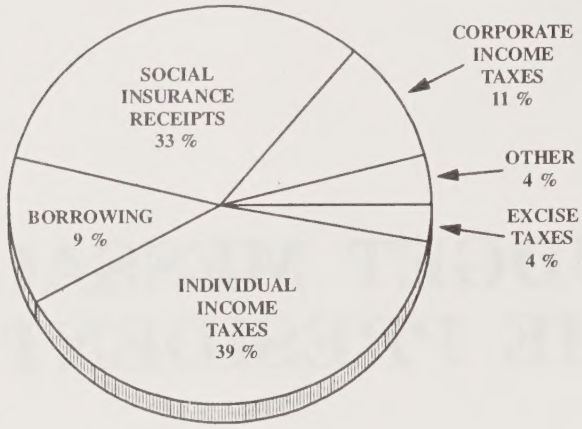

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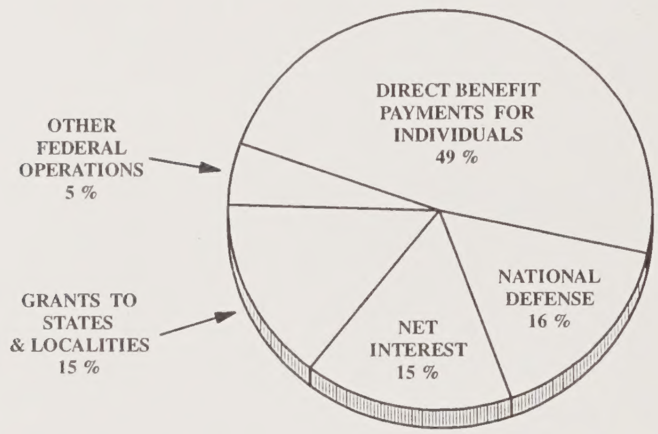


RECEIPTS, OUTLAYS, AND SURPLUS OR DEFICIT

(In billions of dollars)

	1995 Actual	Estimate						
		1996	1997	1998	1999	2000	2001	2002
Receipts	1,355	1,427	1,495	1,578	1,653	1,734	1,820	1,912
Outlays	1,519	1,572	1,635	1,676	1,717	1,761	1,812	1,868
Surplus/Deficit (–)	–164	–146	–140	–98	–64	–28	8	44

THE BUDGET MESSAGE OF THE PRESIDENT

To the Congress of the United States:

The 1997 Budget, which I am transmitting to you with this message, builds on our strong economic record by balancing the budget in seven years while continuing to invest in the American people.

The budget cuts unnecessary and lower priority spending while protecting senior citizens, working families, and children. It reforms welfare to make work pay and provides tax relief to middle-income Americans and small business.

Three years ago, we inherited an economy that was suffering from short- and long-term problems—problems that were created or exacerbated by the economic and budgetary policies of the previous 12 years.

In the short term, economic growth was slow and job creation was weak. The budget deficit, which had first exploded in size in the early 1980s, was rising to unsustainable levels.

Over the longer term, the growth in productivity had slowed since the early 1970s and, as a result, living standards had stagnated or fallen for most Americans. At the same time, the gap between rich and poor had widened.

Over the last three years, we have put in place budgetary and other economic policies that have fundamentally changed the direction of the economy—for the better. We have produced stronger growth, lower interest rates, stable prices, millions of new jobs, record exports, lower personal and corporate debt burdens, and higher living standards.

Working with the last Congress in 1993, we enacted an economic program that has worked better than even we projected in spurring growth and reducing the deficit. We have cut the deficit nearly in half, from $290 billion in 1992 to $164 billion in 1995. As a share of the Gross Domestic Product, we have cut the deficit by more than half in three years, bringing the deficit to its lowest level since 1979.

While cutting overall discretionary spending, we also shifted resources to investments in our future. With wages increasingly linked to skills, we invested wisely in education and training to help Americans acquire the tools they need for the high-wage jobs of tomorrow. We also invested heavily in science and technology, which has been a strong engine of economic growth throughout the Nation's history.

For Americans struggling to raise their children and make ends meet, we have sought to make work pay. We expanded the Earned Income Tax Credit, providing tax relief for 15 million working families. And we have given 37 States the freedom to test ways to move people from welfare to work while protecting children.

As the economy has become increasingly global, prosperity at home depends heavily on opening foreign markets to American goods and services. With this in mind, we secured legislation to implement the General Agreement on Tariffs and Trade and the North American Free Trade Agreement, and we have completed over 80 other trade agreements. Under our leadership, U.S. exports have grown to an all-time high.

With these policies, we have helped pave the way for a future of sustained economic growth, low interest rates, stable prices, and more opportunity for Americans of all incomes. But our work is not done.

Looking ahead, as I said recently in my State of the Union address, we must answer three fundamental questions: First, how do we make the American dream of opportunity for all a reality for all Americans who are willing to work for it? Second, how do we preserve our old and enduring values as we move into the future? And, third, how do we meet these challenges together, as one America?

This budget addresses those questions.

Creating an Age of Possibility

I am committed to finishing the job that we began in 1993 and finally bringing the budget into balance. In our negotiations with congressional leaders, we have made great progress toward reaching an agreement. We have simply come too far to let this opportunity slip away.

A balanced budget would reduce interest rates for all Americans, including the young families across the land who are struggling to buy their first homes. It also would free up funds in the private markets with which businesses could invest in factories and equipment, or in training their workers.

But we have to balance the budget the right way—by cutting unnecessary and lower priority spending; investing in the future; protecting senior citizens, working families, children, and other vulnerable Americans; and providing tax relief for middle-income Americans and small businesses.

My budget does that. It strengthens Medicare and Medicaid, on which millions of senior citizens, people with disabilities, and low-income Americans rely. It reforms welfare. It cuts other entitlements. And it cuts deeply into discretionary spending.

But while cutting overall discretionary spending, my budget invests in education and training, the environment, science and technology, law enforcement, and other priorities to help build a brighter future for all Americans. We should spend more on what we need, less on what we don't.

Projecting American Leadership

Across the globe, we live in a time of great opportunity and great challenge. With the end of the Cold War, the world looks to the United States for leadership. Providing it is clearly in our best interest. We must not turn away.

My budget provides the necessary resources to advance America's strategic interests, carry out our foreign policy, open markets abroad, and support U.S. exports. It also provides the resources to confront the emerging global threats that have replaced the Cold War as major concerns—regional, ethnic, and national conflicts; the proliferation of weapons of mass destruction; international terrorism and crime; narcotics trading; and environmental degradation.

On the diplomatic front, our successes have been numerous and heartening, and they have made the world a safer and more stable place. Through our leadership, we are helping to bring peace to Bosnia and the Middle East, and we have spurred progress in Northern Ireland. We also encouraged the movement toward democracy and free markets in Russia and Central Europe, and we led a successful international effort to defuse the nuclear threat from North Korea.

On the military front, we have deployed our forces where we could be effective and where it was in our interest to promote stability by ending bloodshed (such as in Bosnia) and suffering (such as in Rwanda). We also have used the threat of force to ease tensions, such as to unseat an unwelcome dictatorship in Haiti and to stare down Iraq when it threatened again to move against Kuwait.

This budget provides the funds to sustain and modernize the world's strongest, best-trained, best-equipped, and most ready military force. Through it, we continue to support service members and their families with quality-of-life improvements in the short term, while planning to acquire the new technologies that will become available at the turn of this decade.

Creating Opportunity and Encouraging Responsibility

The Federal Government cannot—by itself—solve most of the problems and address most of the challenges that we face as a people. In some cases, it must play a lead role—whether to ensure the guarantee of health care for vulnerable Americans, expand access to education and training, invest in science and technology, protect the environment, or make the tax code fairer. In other cases, it must play more of a partnership role—working with States, localities, nonprofit groups, churches and synagogues, families, and individuals to strengthen communities, make work pay, protect public safety, and improve the quality of education.

To restore the American community, the budget invests in national service, through which 25,000 Americans this year are helping to solve problems in communities while earning money for postsecondary education or to repay student loans. We want to create more Empowerment Zones and Enterprise Communities to spur economic development and expand opportunities for the residents of distressed urban and rural areas. We want to expand the Community Development Financial Institutions Fund to provide credit and other services to such communities. With the same goal in mind, we want to transform the Department of Housing and Urban Development into an agency that better addresses local needs. And we want to maintain our relationship with, and the important services we provide to, Native Americans.

In health care, our challenge is to improve the existing and largely successful system, not to end the guarantees of coverage on which millions of vulnerable Americans rely. My budget strengthens Medicare and Medicaid, ensuring their continued vitality. For Medicare, it strengthens the Part A trust fund, provides more choice for seniors and people with disabilities, and makes the program more efficient and responsive to beneficiary needs. For Medicaid, it gives States more flexibility to manage their programs while preserving the guarantee of health coverage for the most vulnerable Americans, retains current nursing home quality standards, and continues to protect the spouses of nursing home residents from impoverishment. My budget proposes reforms to make private health care more accessible and affordable, and premium subsidies to help those who lose their jobs pay for private coverage for up to six months. It also invests more in various public health services, such as the Ryan White program to serve people living with AIDS, and research and regulatory activities that promote public health.

Because America's welfare system is broken, we have worked hard to fix those parts of it that we could without congressional action. For instance, we have given 37 States the freedom to test ways to move people from welfare to work while protecting children, and we are collecting record amounts of child support. But now, I need the help of Congress. Together, in 1993 we expanded the Earned Income Tax Credit for 15 million working families, rewarding work over welfare. Now, my budget overhauls welfare by setting a time limit on cash benefits and imposing tough work requirements, and I want us to enact bipartisan legislation that requires work, demands responsibility, protects children, and provides adequate resources to get the job done right—with child care and training, giving recipients the tools they need.

More and more, education and training have become the keys to higher living standards. While Americans clearly want States and localities to play the lead role in education, the Federal Government has an important supporting role to play—from funding pre-school services that prepare children to learn, to expanding access to college and worker retraining. My budget continues the strong investments that we have made to give Americans the skills they need to get good jobs. Along with my ongoing investments, my budget proposes a Technology Literacy Challenge Fund to bring the benefits of technology into the classroom, a $1,000 merit scholarship for the top five percent of graduates in every high school, and more Charter Schools to let parents, teachers, and communities create public schools to meet their own children's needs.

As Americans, we can take pride in cleaning up the environment over the last 25 years, with leadership from Presidents of both parties. But our job is not done—not with so many Americans breathing dirty air or drinking unsafe water. My budget continues our efforts to find solutions to our environmental problems without burdening business or imposing unnecessary regulations. We are providing the necessary funds for the Environmental Protection Agency's operating program, for our national parks and forests, for my plan to restore the Florida Everglades, and for my "brownfields" initiative to clean up abandoned, contaminated industrial sites in distressed urban and rural communities. And we are continuing to reinvent the regulatory process by working collaboratively with business, rather than treating it as an adversary.

With science and technology (S&T) so vital to our economic future, our national security, and the well-being of our people, my budget continues our investments in this crucial area. To maintain our investments, I am asking Congress to fulfill my request for basic research in health sciences at the National Institutes of Health, for basic research and education at the National Science Foundation, for research at other agencies that depend on S&T for their missions, and for cooperative projects with universities and industry, such as the industry partnerships created under the Advanced Technology Program.

To attack crime, the Federal Government must work with States and communities on some problems and lead on others. To help communities, we continue to invest in the Community Oriented Policing Services (COPS) program, which is putting 100,000 more police on the street. We are helping States build more prisons and jail space, better enforce the Brady bill that helps prevent criminals from buying handguns, and better address the problem of youth gangs. At the Federal level, we are leading the fight to stop drugs from entering the country and expand drug treatment efforts, and we are stepping up our efforts to secure the border against illegal immigration while we help to defray State costs for such immigration.

For many families, of course, the first challenge often is just to pay the bills. My budget proposes tax relief for middle-income Americans and small businesses. It provides an income tax credit for each dependent child under 13; a deduction for college tuition and fees; and expanded individual retirement accounts to help families save for future needs and more easily pay for college, buy a first home, pay the bills during times of unemployment, or pay medical or nursing home costs. For small business, it offers more tax benefits to invest, provides estate tax relief, and makes it easier to set up pensions for employees. It also would expand the tax deduction to make health insurance for the self-employed more affordable.

Making Government Work

As we pursue these priorities, we will do so with a Government that is leaner, but not meaner, one that works efficiently, manages resources wisely, focuses on results rather than merely spending money, and provides better service to the American people. Through the National Performance Review, led by Vice President Gore, we are making real progress in creating a Government that "works better and costs less."

We have cut the size of the Federal workforce by over 200,000 people, creating the smallest Federal workforce in 30 years, and the smallest as a share of the total workforce since before the New Deal. We are ahead of schedule to cut the workforce by 272,900 positions, as required by the 1994 Federal Workforce Restructuring Act that I signed into law.

Just as important, the Government is working better. Agencies such as the Social Security Administration, the Customs Service, and the Veterans Affairs Department are providing much better service to their customers. Across the Government, agencies are using information technology to deliver services more efficiently to more people.

We are continuing to reduce the burden of Federal regulation, ensuring that our rules serve a purpose and do not unduly burden businesses or taxpayers. We are eliminating 16,000 pages of regulations across Government, and agencies are improving their rulemaking processes.

In addition, we continue to overhaul Federal procurement so that the Government can buy better products at cheaper prices from the private sector. No longer does the Government pay outrageous prices for hammers, ashtrays, and other small items that it can buy cheaper at local stores.

As we look ahead, we plan to work more closely with States and localities, with businesses and individuals, and with Federal workers to focus our efforts on improving services for the American people. Under the Vice President's leadership, agencies are setting higher and higher standards for delivering faster and better service.

Conclusion

Our agenda is working. We have significantly reduced the deficit, strengthened the economy, invested in our future, and cut the size of Government while making it work better for the American people.

Now, we have an opportunity to build on our success by balancing the budget the right way. It is an opportunity we should not miss.

WILLIAM J. CLINTON

March 1996

CREATING AN AGE OF POSSIBILITY

CREATING AN AGE OF POSSIBILITY

> *We live in an age of possibility. A hundred years ago we moved from farm to factory. Now we move to an age of technology, information, and global competition. These changes have opened vast new opportunities for our people, but they have also presented them with stiff challenges.*
>
> President Clinton
> January 1996

The change that we face is both exciting and frightening. For some, it raises hope of a better, more prosperous, and more secure life. For others, it transforms the traditional rules of life and work in unsettling ways.

In this period of change, our challenge is to make the age of possibility one that will raise living standards and expand opportunity for all; make our streets safer and our air and water cleaner; and enable Americans to share the full potential of a new era.

Change of that magnitude comes mainly from the private sector. But a leaner, more flexible Federal Government—as the President is creating—has an important supporting role to play, working with State and local governments, businesses, schools, churches and synagogues, and other organizations. By providing a sense of national purpose, and the funds when appropriate, the Federal Government can be an important catalyst for change.

The Government also plays a key role in creating a climate for strong, sustained economic growth, and higher living standards now and in the future. Its tools include a responsible budget policy, an expansive trade policy, and investments in education and training, science and technology, and other priorities.

Over the last three years, the President's economic program has generated much stronger growth, millions more new jobs, and lower interest rates than under the previous Administration. The program also has produced stable prices and record exports. For the first time in a decade, the economy is moving in the right direction.

In this budget, the President proposes to build on his strong record of deficit reduction and to bring the budget into balance over the next seven years. His plan includes a balanced mix of deep spending cuts in both entitlements and discretionary spending—deep enough to allow for a modest tax cut for average Americans and small businesses.

The budget balances the need to cut total discretionary spending with maintaining, and in many cases increasing, the President's investments in key priorities. A balanced budget would help set the stage for continued economic growth, low interest rates, and stable prices in the future.

Clearly, the Nation cannot achieve its common goals without strong economic growth. But growth alone is not enough. We must ensure that America is growing together, and that everyone is sharing the benefits. Today, too many Americans are working harder and harder just to stay in place, or are actually falling behind. To address that problem, the President proposes to help Americans get the skills they need to assume high-wage jobs in the new economy. He would invest in education, from pre-school to college; fund training for the workplace; and support science and technology to spur future productivity and wage growth.

As the President has said, “the era of big Government is over.” At the same time, the Federal Government must support growth by giving the private sector the tools it needs. This budget builds on the Administration’s three-year record of success in establishing, and implementing, Government’s proper role in our economy.

1. A VISION FOR THE FUTURE

This budget helps promote a strong economy for the future and, with it, helps Americans build better lives for themselves and their families.

To promote a strong economy with sustained growth and low interest rates, the budget reaches balance in seven years by cutting unnecessary and lower priority spending. At the same time, it invests in education and training, the environment, science and technology, and other priorities to help raise average living standards and the quality of life. The budget protects Medicare and Medicaid, reforms welfare to make work pay, and provides tax relief to middle-income Americans as well as small businesses.

Reaching Balance the Right Way

This budget reaches balance in 2002, a goal to which the President is committed, using the last available economic and technical assumptions of the Congressional Budget Office (CBO). It also achieves a surplus of $44 billion in 2002 under the economic and technical assumptions of the Office of Management and Budget (OMB).

The budget embodies the proposal that the President put forth in budget negotiations with the bipartisan congressional leadership on January 18, 1996. The President and the leaders have worked hard to find agreement on a plan to balance the budget over seven years. While they have not finished the job, the President believes strongly that their negotiations have been productive, bringing the two sides closer together. He is committed to doing whatever he can to complete the task.

In their talks, the President and the leaders have outlined a variety of proposals. The minimum amounts of savings that the plans have in common in the major budget categories (e.g., $124 billion in Medicare, $297 billion in discretionary spending) provide enough in total savings to balance the budget and also provide a modest tax cut.

The congressional leadership wants bigger tax cuts—offset by deeper cuts in Medicare and Medicaid, other mandatory programs that help farmers and the poor, and discretionary spending. But the President believes those cuts are too deep and would threaten the Government's vital role in guaranteeing health care to vulnerable Americans and investing in the future. He has proposed that the two sides quickly enact the savings they have in common and give the American people a balanced budget.

To estimate the deficit for 1996 through 2002 based on assumptions from the Congressional Budget Office (CBO), the Administration used the most recent assumptions that were available—from December 1995.

In March or April, CBO plans to release a new, updated set of economic and technical assumptions. While the President's budget reaches balance under CBO's December 1995 assumptions, the new assumptions could change the President's path to balance; in 2002, they could produce a bigger surplus or a deficit.

In case the new assumptions produce a deficit in 2002, the President's budget proposes an immediate adjustment to the annual limits, or "caps," on discretionary spending, lowering them enough to reach balance in 2002.

The President is committed not only to proposing a budget that reaches balance according to CBO, but reaching an agreement with Congress to enact such a budget.

Using the last available CBO assumptions, this budget saves $593 billion over seven years (after accounting for the President's tax cuts) by reforming Federal entitlement programs, cutting deeply into discretionary spending, and limiting corporate subsidies.

Among its major elements, the budget:

- saves $297 billion in discretionary spending, cutting unnecessary spending but investing in education and training, the environment, science and technology, law enforcement, and other priorities that will raise living standards and improve the quality of American life (see Chapters 8–11);
- saves $124 billion in Medicare, strengthening and improving the program and guaranteeing the solvency of the Part A trust fund for over a decade (see Chapter 6);
- saves $59 billion in Medicaid, reforming the program but continuing the guarantee of meaningful health and long-term care coverage for the most vulnerable Americans (see Chapter 6);
- saves $40 billion through real welfare reform, moving recipients to work while protecting children (see Chapter 7);
- saves $49 billion by reforming a host of other mandatory programs (see the more detailed explanation in the next paragraph);
- saves $62 billion by ending corporate subsidies and other tax loopholes, and taking steps to improve tax compliance (see Chapter 12); and
- cuts taxes by $100 billion, providing tax relief to tens of millions of middle-income Americans and to small businesses (see Chapter 12).

Among the $49 billion in other mandatory savings, the budget proposes to auction, privatize, or sell, rather than give away, valuable public resources, including segments of the broadcast spectrum, energy resources, materials stockpiles, and other assets. It also proposes that Federal agencies fully fund their employees' retirement costs.

In addition, the budget extends previously-enacted savings in veterans' benefits; cuts subsidies to financial institutions that make and hold student loans (without increasing program costs to borrowers); imposes fees to recover the costs of services that the Federal Government provides to private businesses; reforms Federal housing and banking programs; and makes other program efficiencies and improvements.

The budget also includes a "trigger" to ensure that the budget reaches balance under either CBO or OMB assumptions. Under the trigger, most of the tax cuts end after 2000 if the deficit is not at least $20 billion below CBO's initial estimate for that year. If, however, the deficit is at least $20 billion below the estimate, then the budget distributes the additional savings in the following order:

- first, it maintains the tax cuts after the year 2000;
- second, it reduces the cuts in discretionary spending; and
- third, it splits any additional savings evenly among more tax cuts, more reductions in the discretionary cuts, and more deficit reduction.

If OMB's assumptions prove correct, the budget would provide tax relief over the next seven years of $117 billion, and discretionary spending cuts of $186 billion.

Maintaining Our Values

From the start, the President's economic program has emphasized one primary concern—to raise the standard of living of average Americans now and in the future. His budget policy has played a central role.

By cutting the deficit nearly in half in the last three years, we have reduced Federal borrowing, making more funds available in the private markets so that businesses can invest, grow more productive, expand, and create jobs. We also have shifted resources to education and training, science and technology, and other priorities—to enable Americans to get the skills they need to compete in the new economy and to help businesses become more competitive.

Like the President's previous budgets, this budget maintains his investments in education

and training, science and technology, environmental protection, law enforcement, and other key priorities.

These investments include Head Start for disadvantaged children; the Safe and Drug-Free Schools and Communities program to create safe learning environments; Goals 2000, which helps States and school systems extend high academic standards, better teaching, and better learning to all students; AmeriCorps, through which 25,000 Americans are serving their communities this year and earning money for college; direct lending that makes it easier to borrow and repay college loans; Pell grant scholarships for needy students; and job training Skill Grants for dislocated workers and low-income adults.

The budget maintains environmental enforcement; protects national parks and other sensitive resources; and invests in basic and applied research and technology. It funds the Community Oriented Policing Services (COPS) initiative to put 100,000 more police on the street by the year 2000; more border patrol agents to prevent illegal immigration and more inspections to prevent the hiring of illegal immigrants; and the Community Development Financial Institutions Fund to spur growth and create jobs in communities that have been left behind.

In addition, the budget includes funds to launch the important initiatives that the President outlined in his State of the Union address.

- To promote educational opportunity, the budget funds a Technology Literacy Challenge to bring the benefits of technology into the classroom; expanded work-study to help one million students work their way through college by the year 2000; a $1,000 merit scholarship for the top five percent of graduates in every high school; and more Charter Schools to let parents, teachers, and communities create public schools to meet their own children's needs.
- To promote a secure future for American workers, the budget funds initiatives to make it easier for small businesses and farmers to establish their own pension plans, to encourage these and other employers to established flexible pension plans that workers can take with them when they change jobs, and to help workers who lose their health insurance when they lose their jobs pay for private insurance coverage for up to six months.
- To protect our environment, the budget funds tax incentives to encourage companies to clean up "brownfields"—abandoned, contaminated industrial properties in distressed areas.
- To protect public safety, the budget provides funds for the FBI and other law enforcement agencies to step up efforts to combat juvenile crime and gangs that involve juveniles.

A Period of Change

The Nation has entered a period of profound change—from an economy based primarily on traditional manufacturing to one based more heavily on information—the most profound change since we moved from the farm to the factory a century ago. It is a period of great opportunity and great uncertainty, a period that demands new thinking and new responses.

In the 19th and early 20th Centuries, and with the American economy assuming the lead, the economies of the developed world moved from agriculture to manufacturing by way of a pull and a push. The pull: the explosion of opportunities in manufacturing. The push: the growth of productivity in agriculture that freed resources—that is, both workers and investment—to exploit the new opportunities.

Now, an explosion of possibilities in the use of information is drawing workers from manufacturing, while the rapid growth in manufacturing productivity has eased the change. The revolution in information technology has increased productivity by helping people work faster and smarter. It has created jobs, rewarded entrepreneurs and investors, improved learning, and provided more enjoyable uses of leisure time. For society at large, it is both desirable and inevitable.

As President Clinton said in signing the Telecommunications Act of 1996 into law on February 8:

> Today our world is being remade yet again by an information revolution, changing the way we work, the way we live, the way we relate to each other. Already the revolution is so profound that it is changing the dominant economic model of the age. And already, thanks to the scientific and entrepreneurial genius of American workers in this country, it has created vast, vast opportunities for us to grow and learn and enrich ourselves in body and in spirit.

But the benefits of this revolution are not spread evenly among all Americans.

The Perils of Change

In 1979, 13,505 taxpayers filed Federal tax returns with incomes of over $500,000. From that year to 1993, the cost of living roughly doubled. If incomes had just kept pace with inflation over that period, the same number of taxpayers would have had incomes of over $1 million in 1993.[1]

In fact, the number of taxpayers with incomes over $1 million had almost quintupled by 1993, to 66,485. Obviously, at the upper end of the income scale, opportunity is alive and well—as it should be for all Americans who are working their way up the economic ladder.

Opportunity, however, has been absent for many others. Average families in the middle fifth of the income scale had $447 less in purchasing power in 1992 than in 1979. Those in the bottom two-fifths had even larger declines in percentage terms. At the same time, the income of the top fifth of families grew by 12 percent, and that of the highest five percent by 17 percent.

More and more, workers entering the labor market without the requisite skills face worse income prospects over their working lives than their predecessors did. Those who did not invest in their skills, or who invested in skills that have become obsolete, can find that what were once lifetime jobs are disappearing. Too often, these workers face limited prospects for maintaining their incomes.

Wage trends of 25–34 year-old workers make the point: In 1979, male workers with high school degrees who worked full time and year-round earned, in 1992 dollars, an average of about $30,900; by 1992, their earnings had fallen to $24,400. Their female counterparts saw their earnings fall by two percent, to only $18,900.

On the other hand, the earnings of young male college graduates rose two percent, to $40,000, after adjusting for inflation. Female college graduates enjoyed an even larger gain, 15 percent (see Chart 1–1). And yet, though those with college degrees are doing better than others, even they have experienced slower income growth in recent years.

Nor do these figures begin to explain how profound economic change has affected peoples' lives. If economic change shakes an entire business firm, the retirement security of that firm's workers can shake with it. Young people who cannot get the skills and training to compete in the information economy risk facing a considerable disadvantage for their working lives. And with health care often dependent on employment, the absence of skills or loss of a good job can adversely affect family security beyond the measure of a worker's income.

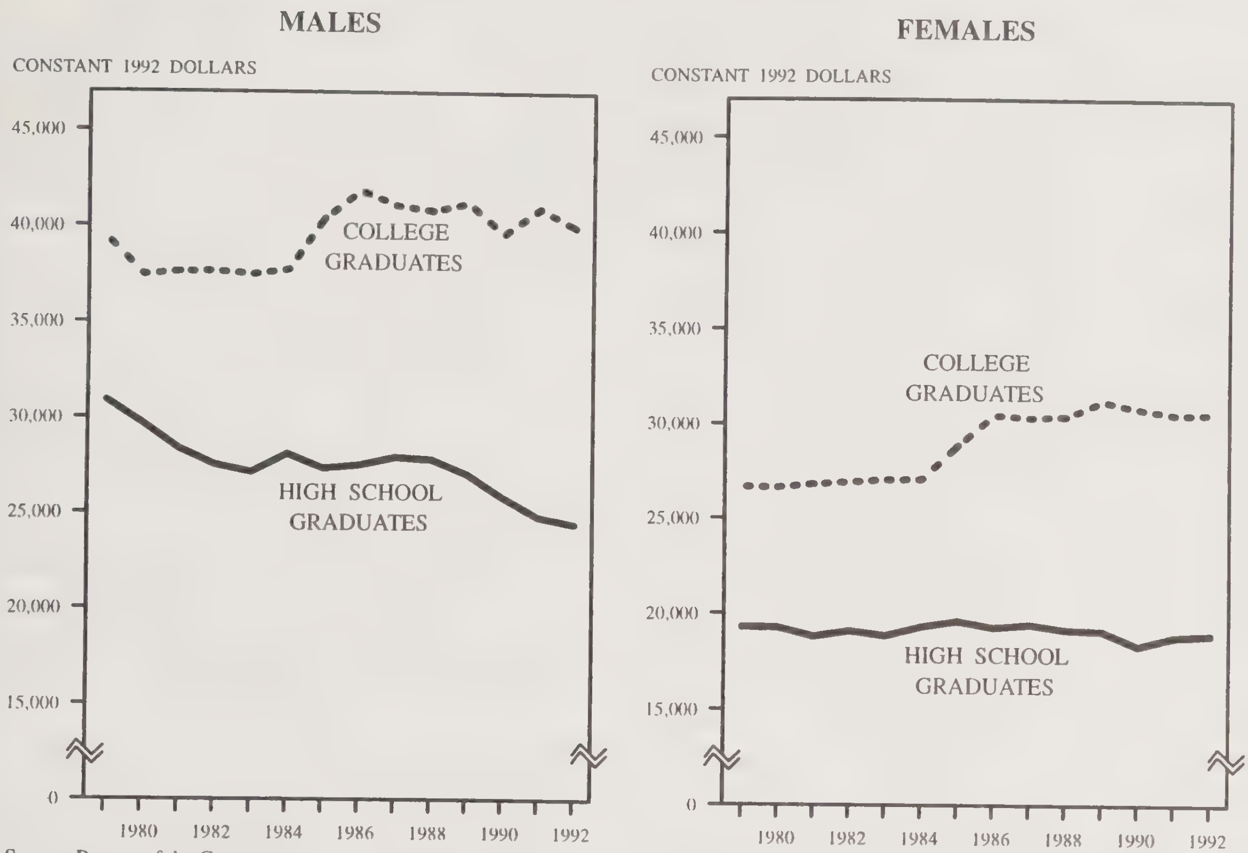
The Nation cannot afford to dismiss any workers, to relegate them to the bottom rung of the economic ladder. The stakes are far too high. To build a stronger, more competitive economy at a time of increasing global competition, we need the contributions of all Americans. We need everyone to actively partake in the society at large, rather than impose costs on it through crime or dependency. As the President often says, "We don't have a person to waste."

The Federal Government cannot guarantee each, or any, person's success. But it can, and should, help every individual to achieve his or her greatest potential by reducing the barriers and the risks to building personal skills for a changing, information-based economy.

Education and training are the cornerstone of the new economy. To help give workers the skills they need, and the opportunities they deserve, for high-wage jobs, the budget enhances the Government's support for education and training. It protects funding for essential education programs, from Head Start

[1] Population growth would have raised the number to roughly 16,000, and changes in income definitions in the tax law might have raised it slightly higher.

CHART 1-1. ANNUAL EARNINGS BY EDUCATIONAL ATTAINMENT
(year-round full-time workers, age 25 to 34)



Source: Bureau of the Census.

for disadvantaged pre-schoolers to college scholarships. The budget proposes an income tax deduction for tuition and expenses for college and career training, to encourage especially those for whom costs present the greatest obstacle. It allows penalty-free withdrawals from individual retirement accounts (IRAs) for educational costs. And it anticipates a major overhaul of Federal job training programs based on the President's G.I. Bill for America's Workers, proposed in last year's budget.

Building on the retirement safety net that Social Security and Federal pension protections already offer, the budget proposes to expand IRAs to help workers build their own reserves against their retirement needs. The budget also proposes to help workers who lose their jobs to continue health insurance for themselves and their families. And it proposes simplified retirement savings systems to encourage employers to establish flexible, portable pension plans that workers can take with them when they change jobs.

Maintaining Our Edge—Abroad

In this age of possibility, the United States must continue to provide leadership across the globe and cooperate in the community of nations, not withdraw from it. Despite the voices that call for a U.S. retreat into isolationism, our diplomatic leadership remains critical to keeping the peace and defending our interests in major regions of the world.

American leadership is a key ingredient in dealing with the new threats of the post-Cold War era. Leading the global effort for arms reductions and nonproliferation continues to be an integral element of our diplomacy and national security strategy.

Our efforts support a broad range of programs to reduce the threat of nuclear and chemical weapons. We are making our chil-

dren's future safer by reducing existing arsenals and ensuring that rogue states and terrorist groups do not acquire these terrible weapons or the materials and technologies needed to make them.

Other emerging threats know no national borders. America must lead in confronting such problems as ethnic and national conflicts that threaten regional stability; terrorism, international crime, and drug trafficking, which directly threaten our free and open society; and large-scale environmental degradation.

More than ever, our domestic and foreign economic interests are closely intertwined, and mutually reinforcing. Economic and trade issues are increasingly at the forefront of our diplomacy. We need a strong economy to sustain our military forces and diplomatic strategy. And we must be global leaders in trade and investment in order to open foreign markets and create the high-wage jobs that will raise the living standards of our people.

Our defense capability is what sustains and supports our diplomacy. We have the world's strongest and most ready military force, one designed to fight successfully two nearly simultaneous regional conflicts. Our weapons are state-of-the-art, and our military is the best equipped, best trained, and best prepared in the world. And, when necessary, we have sent the men and women of our military into action.

Maintaining Our Edge—At Home

At home in this time of change, the public and private sectors must work together; we cannot rely on just one or the other. Americans of all generations must come together in the interests of all—whether it is for better schools, safer streets, or a cleaner and healthier environment.

As Americans, we should dedicate ourselves to building a society in which we all have the opportunity to use our talents to their fullest potential, and in which we all take responsibility for our actions; in which all children can learn at safe and stimulating schools, free from the fear of gangs and guns; in which all fathers and mothers give the task of raising their children the energy and attention it deserves; and in which all those who want to work can find good jobs.

To reach this goal in a time of change, we need the right kind of Government and the right kind of policies. We need a Government that creates opportunity, not bureaucracy; one that works with State and local governments, businesses, and religious, charitable, and civic associations; and one that manages its resources wisely.

We need a leaner, but not meaner, Government, one that puts its customers—the American people—first by delivering better services every day and not imposing undue burdens on individuals and businesses. And we need a Government dedicated to better performance and results, rather than to simply doling out dollars.

Government should not do for individuals what they can do for themselves. We must ask more of ourselves, expect more of one another, and meet the challenges that confront us together. We must strive to enable all of our people to make the most of their lives with stronger families, more educational opportunity, economic security, safer streets, a cleaner environment, and a safer world.

2. THREE YEARS OF PROGRESS

As President Clinton took office in January 1993, the economy was only then emerging from a long period of sluggish growth—beginning with the 1990–1991 recession and continuing through an extremely weak recovery, marked by rising unemployment.

The sluggishness exacerbated some serious long-term trends. Since the early 1970s, the incomes of most Americans have not grown as much as they once did—in fact, not much at all. As discussed in the previous chapter, only those atop the income ladder have enjoyed steady income growth. For others, the daily struggle to make ends meet has threatened to become a losing battle. For workers with only a high school education, times have been especially tough.

The President campaigned on a pledge to restore widely shared prosperity, and he shaped his economic policies to achieve this primary goal. The huge Federal budget deficit was a major obstacle. Others included sluggish business investment, slow job growth, and the overgrown Federal Government, about which the public had grown deeply cynical.

Three years later, our economy is stronger and the deficit is down even more than we had predicted. In dollar terms, the policies that we enacted with the last Congress have cut it almost in half, from $290 billion in 1992 to $164 billion in 1995. As a share of the economy, we have cut it by over half, to 2.3 percent (see Charts 2–1 and 2–2).

But as detailed in Chapter 1, we need further action to balance the budget once and for all.

The Administration also has begun to significantly change the way that the Federal Government works. Under the leadership of the Vice President's National Performance Review, we are working to create a Government that "works better and costs less."

Since January 1993, we have cut the number of Federal employees by over 200,000, to its lowest level in 30 years; the Federal share of the civilian workforce is at it lowest level since the 1930s. We are eliminating 16,000 pages of Federal regulations. We have reformed Federal procurement so that the Government now buys at the best price; no longer do we read news accounts of $600 hammers. (For more details on how we are making Government work, see Chapters 13 and 14.)

Meanwhile, the Administration has employed Government where it does the most good—investing in education and training, protecting the environment and public health, helping people get needed health care, strengthening families by helping America's neediest children, and rewarding work. On the world stage, the President has strengthened American leadership and advanced American strategic and economic interests and values.

Still, we have much more to do. Fully reversing the long-term trends that have weakened America will take time and enormous effort.

This chapter reviews what we have done to meet the economic and social challenges that the Administration inherited three years ago. It describes how the economy and society have responded to these initiatives, and the economic path that we envision for the future.

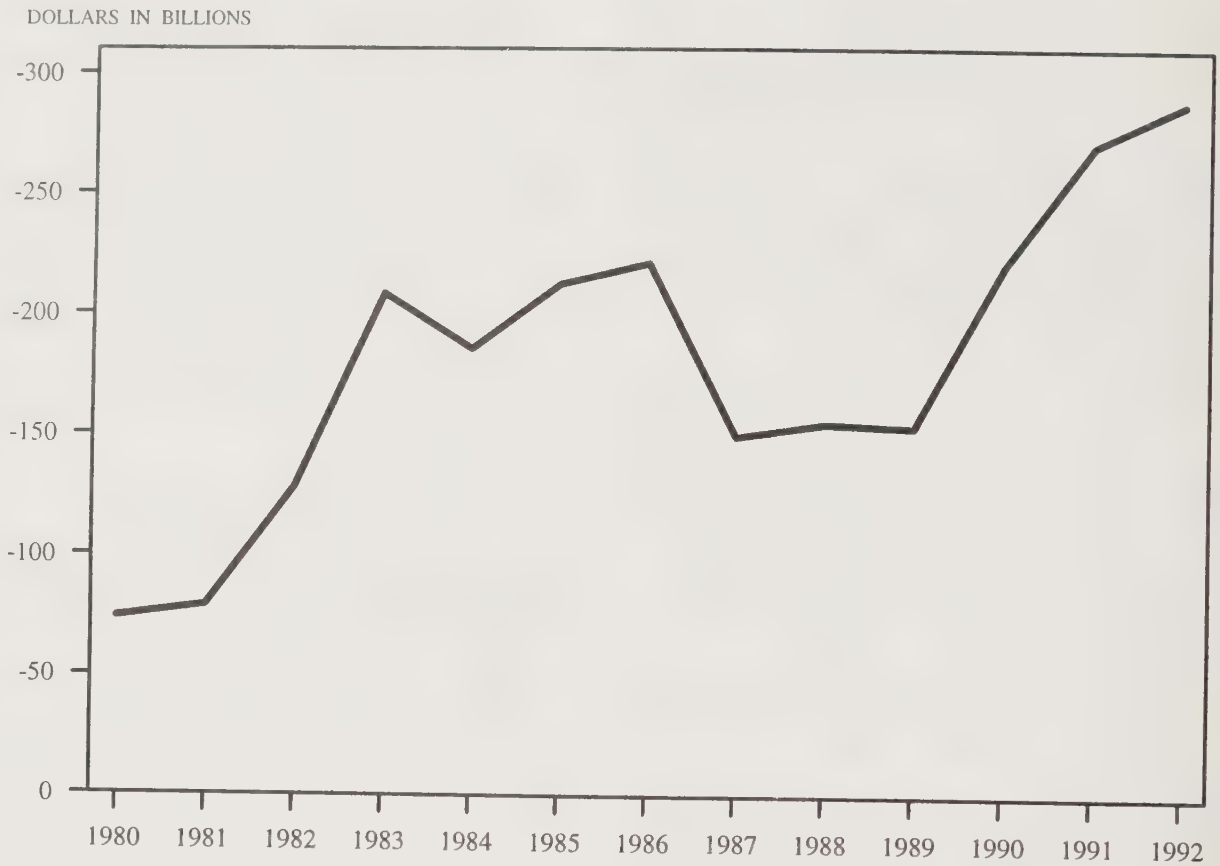
WHAT THE ADMINISTRATION INHERITED

Near-Term Economic Problems

The President inherited an economy that had nominally escaped from recession, but had not yet resumed solid and sustainable economic growth either for the short term or further down the road.

Unemployment: Unemployment rose sharply in late 1990 with the onset of recession. Though the recession technically ended in early 1991, growth was so weak for many months that unemployment continued to rise. In January 1993, unemployment was 7.1 per-

Chart 2-1. FEDERAL BUDGET DEFICITS



cent, about a quarter-point higher than when the 1990–91 recession ended.

Although the economy created some new jobs in the recovery of 1991–92, net job creation was weak. In the four years before January 1993, the economy created just 2.4 million net new jobs—about 51,000 a month. Over the same period, the labor force grew by 80,000 people each month. With the number of potential workers rising faster than the number of jobs, higher unemployment necessarily followed.

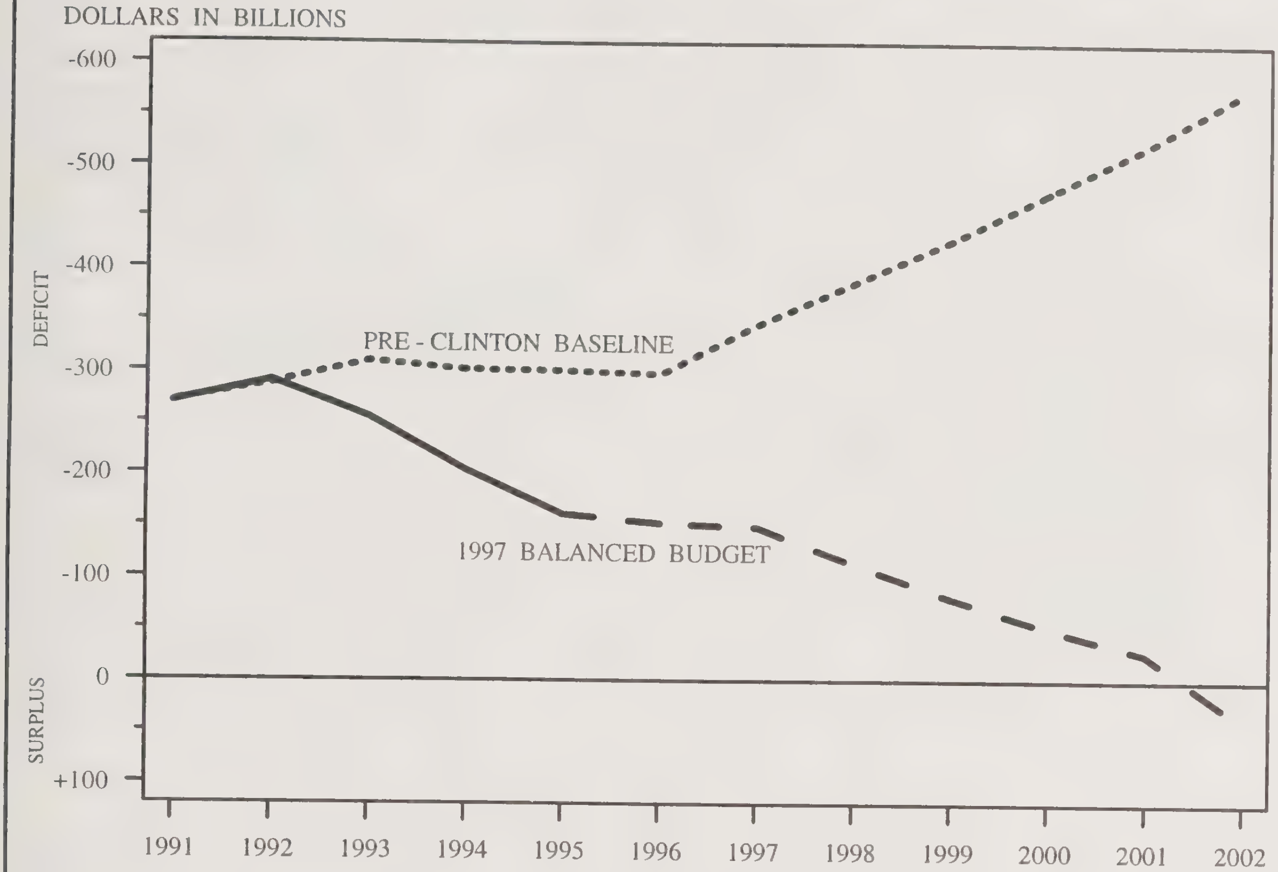
Slow Growth: Weakness in the labor market reflected weak economic activity in general. The economy was growing, but very slowly. From the start of 1991, through the first quarter of 1993, real Gross Domestic Product, or GDP, grew at well under half the rate of economic recoveries since 1960 that lasted at least that long.

The Credit Crunch: The U.S. financial system showed increasing strains in the 1980s. Individuals and corporations pushed their debt burdens higher and higher, and interest payments absorbed more and more income. While the amount of debt was rising, its quality was falling. Savings and loan institutions and banks made some extremely risky loans, many of which proved worthless.

As losses to the Government's deposit insurance programs mounted, the problems of deteriorating credit quality and failing financial institutions became clear. Bank and thrift regulators began to close the failed institutions and the surviving ones raised their credit standards sharply. Many businesses, especially in areas with heavy concentrations of bad loans, had trouble getting needed credit.

Meanwhile, individuals and businesses reduced their borrowing to improve their balance sheets and cut the burden of their interest payments. These steps led to slower consumer spending and less real estate investment. In cities across the country, new construction

Chart 2-2. THE DEFICIT RECORD UNDER PRESIDENT CLINTON



came to a halt as developers scrambled to find tenants for empty office buildings.

Long-Term Problems

The economy's cyclical problems were just part of what the new Administration faced. Underlying those problems were chronic conditions that had lasted over a decade. Among the most damaging were the Federal budget deficit, the fall in private saving, the slowdown in productivity growth, and the increase in income inequality.

The Budget Deficit: The Government has incurred a deficit every year since 1969, but the deficit exploded in size in the 1980s—largely due to the fiscal policies of 1981 and the economic conditions of that day.

The Administration and Congress cut income tax rates by 23 percent, reducing revenue by over four percent of GDP, and increased spending on defense. The tax cuts, higher defense spending, and second recession in two years combined to send the deficit soaring. By 1983, it had nearly tripled, to $208 billion, and since then has never fallen below $149 billion.

Higher and higher deficits brought more and more debt. From the start of the Republic to 1980, the Government had accumulated just under $1 trillion in debt. From 1980 to 1992, the debt rose to $4 trillion.

To be sure, a big deficit can help to stabilize the economy during a recession. But this deficit was harmful because it was "structural"; it would continue even if the economy performed well. Despite numerous attempts to cut the deficit over the next decade, it threatened to reach unsustainable levels as this Administration assumed office.

A structural deficit is important because it affects the Nation's pool of saving. Nations must set aside funds today to build the factories and machines that will generate income for tomorrow; what they set aside

is their saving. It has two components: (1) private saving (by individuals and businesses); and (2) public saving (by Federal, State, and local governments).

If the Federal Government borrows from that pool to finance its deficit, then the borrowed saving is not available to make productive private investment. With its big deficits, the Federal Government in the 1980s massively drained our Nation's saving pool. Worse, as Federal deficits were rising, private saving was falling, making the Nation's saving problem worse.

Private Saving: Private saving averaged 13.3 percent of GDP in the 1960s, but dropped to 7.3 percent in the 1980s (see Chart 2–3). A fall in private saving affects investment and the trade balance in the same way as an increase in the budget deficit. Thus, the fall in private saving exacerbated the economic effects of the higher budget deficit.

In the 1980s, lower national saving pulled down investment. To some extent, the drop in investment was offset by more borrowing from abroad. But that, in turn, led to other problems—including a rising trade deficit. Increased foreign borrowing converted the United States from the world's largest creditor to its largest debtor nation. To service those debts, the Nation will have to increase its exports over its imports for the foreseeable future (see Chart 2–4).

Thus, because of the higher deficits and lower private saving, the 1980s economic expansion was financed by debt to an unprecedented degree (see Chart 2–5). Much of the extra borrowing was not backed by more assets; thus, the borrowing raised the burden of debt service without providing a corresponding increase in resources to service the debt. High real interest rates, caused by the higher borrowing, further aggravated the problem.

Chart 2-3. SAVING RATES

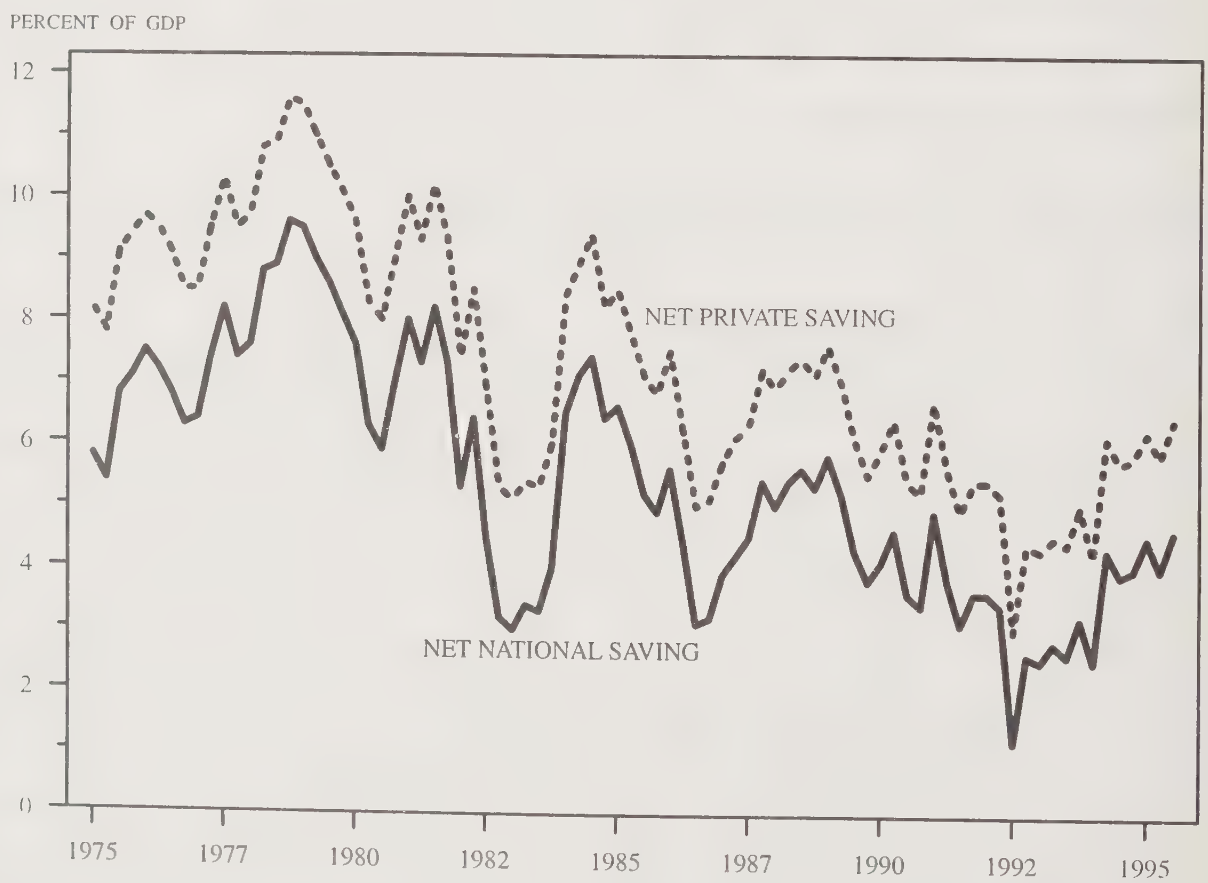


Chart 2-4. U.S. NET INTERNATIONAL INVESTMENT POSITION

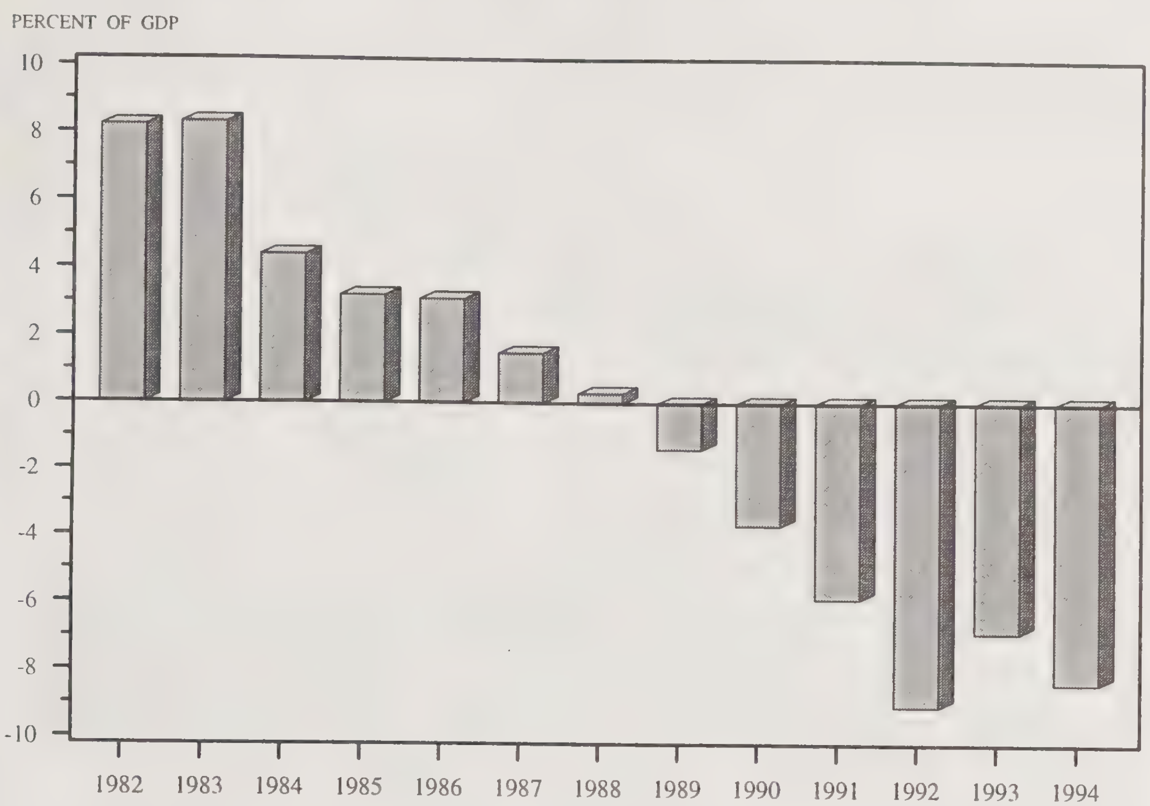
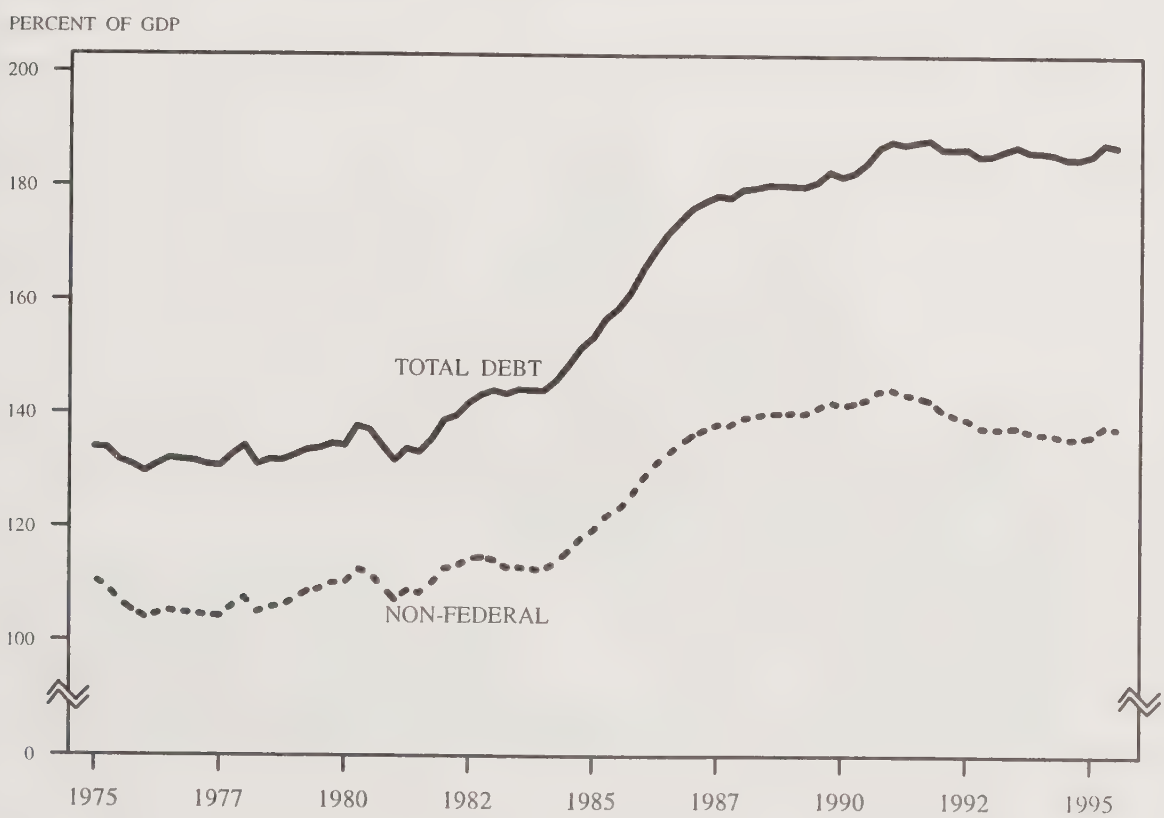


Chart 2-5. NONFINANCIAL DEBT



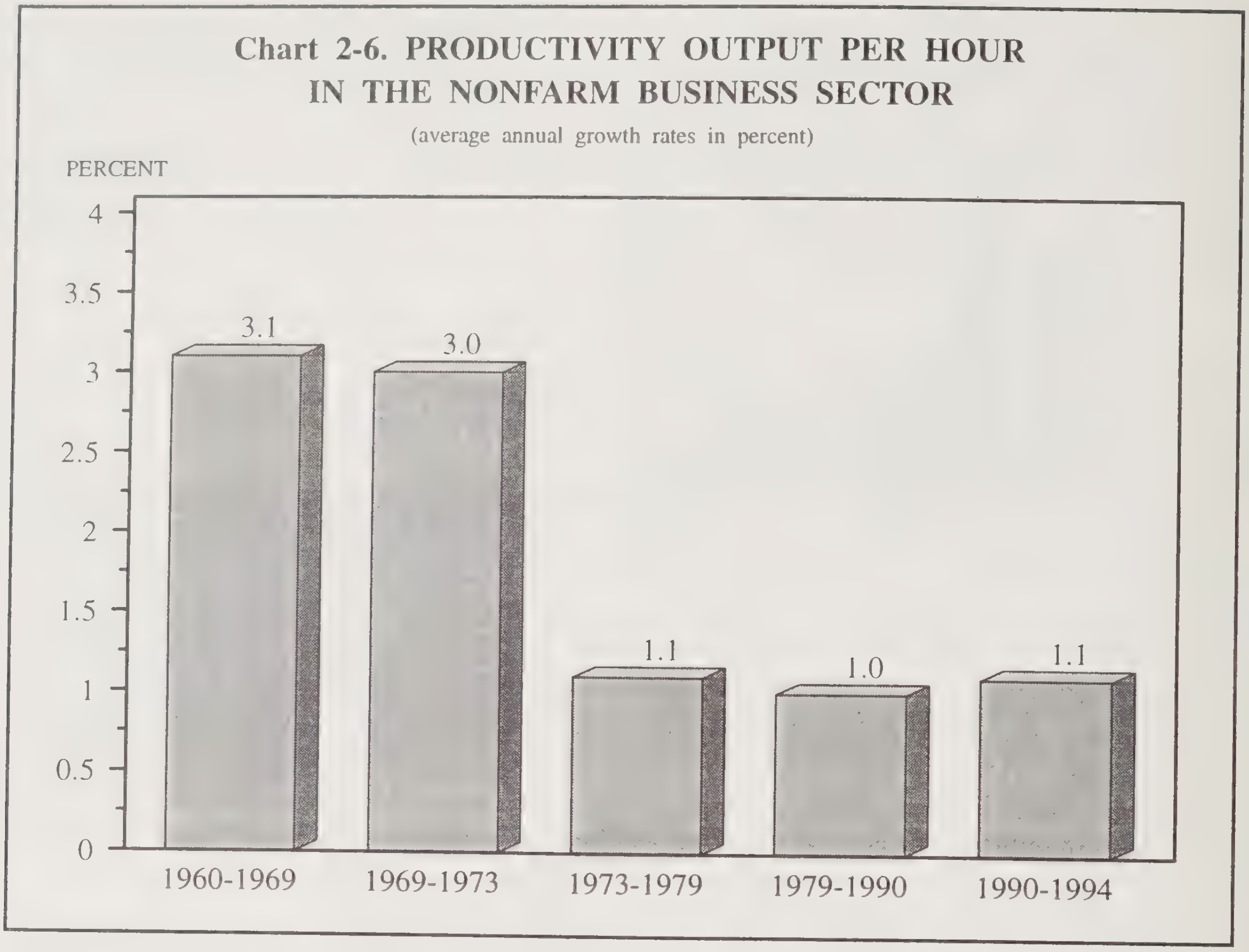


Chart 2-6. PRODUCTIVITY OUTPUT PER HOUR
IN THE NONFARM BUSINESS SECTOR
(average annual growth rates in percent)
PERCENT
4
3.5
3
2.5
2
1.5
1
0.5
0
3.1
3.0
1.1
1.0
1.1
1960-1969
1969-1973
1973-1979
1979-1990
1990-1994

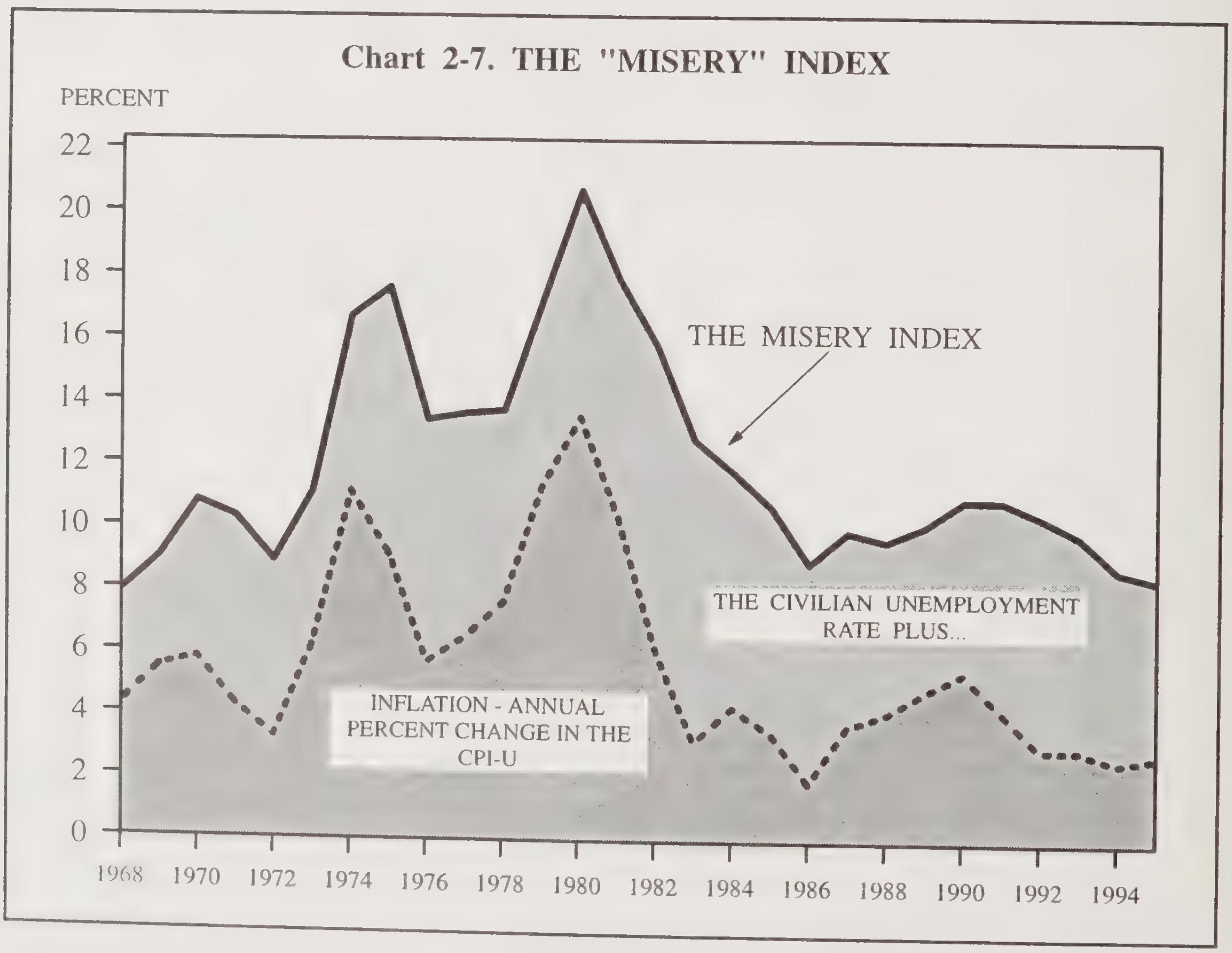
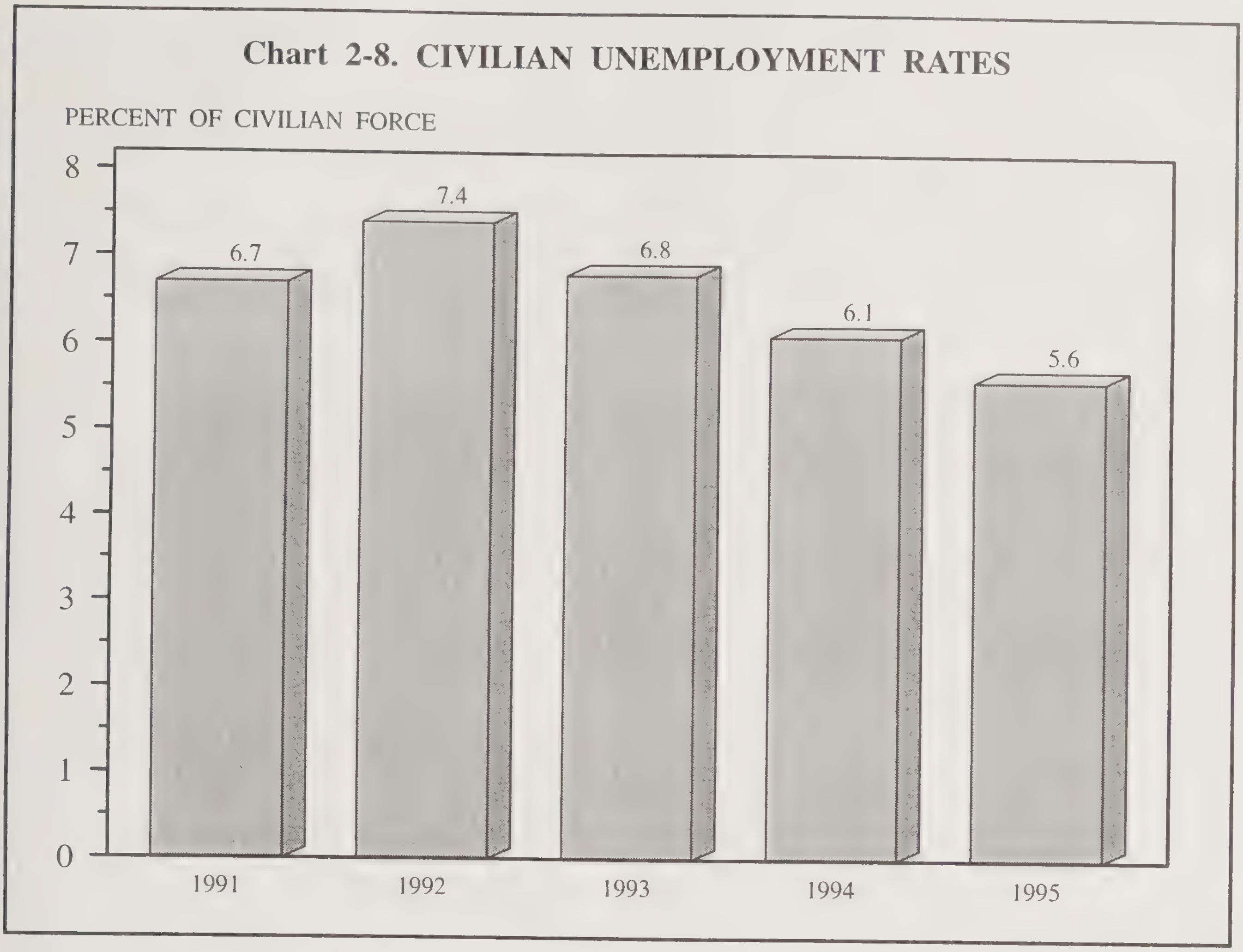


Chart 2-7. THE "MISERY" INDEX
PERCENT
22
20
18
16
14
12
10
8
6
4
2
0
THE MISERY INDEX
THE CIVILIAN UNEMPLOYMENT RATE PLUS...
INFLATION - ANNUAL PERCENT CHANGE IN THE CPI-U
1968
1970
1972
1974
1976
1978
1980
1982
1984
1986
1988
1990
1992
1994



Debt left the economy vulnerable when recession struck in the 1990s, and it helps explain why the recovery was initially so weak. No strong recovery could occur until the unwise policies of the 1980s were reversed.

The decline in saving and investment also contributed to another of the economy's chronic weaknesses—sluggish productivity growth.

The Productivity Slowdown: Rising productivity holds the key to higher incomes. For 25 years after World War II, productivity growth averaged 2.7 percent a year, the highest in U.S. history for that long a time period, and it reached three percent a year in the 1960s. Incomes rose substantially for most families, and workers grew accustomed to annual pay increases that outstripped inflation. The middle class expanded, as did opportunities for home ownership, education, and leisure.

Since the early 1970s, productivity has grown an average of only about one percent a year, about a third as fast as before (see Chart 2–6). With slower productivity growth, the rapid rise in living standards came to an end. The Nation's promise of opportunity was in danger and Americans began to fear that, for the first time in U.S. history, future generations would not enjoy higher living standards than their parents.

While the economy continued to grow, it did not grow as fast as in earlier decades. Moreover, growth depended more on the entry of new workers, especially married women, into the labor market. When growth in the labor force slowed, as at the beginning of the 1990s, productivity improvements alone could not sustain continued rapid increases in real GDP.

Rising Inequality: Another chronic problem, aggravated by slower productivity growth and lower saving, was rising income inequality. For the lowest 60 percent of American

families, the standard of living actually fell from 1979 to 1992. Only those at the top continued to enjoy substantial income gains.

For families in the bottom 20 percent of income, real mean income was 14 percent lower in 1992 than in 1973; for families in the top five percent, real income was 17 percent higher. As a result, the gap between the top and bottom incomes widened to record levels.

The Social Repercussions

Slow productivity growth and widening income inequality have effects throughout society. The difficulties of working families in making ends meet have raised the pressures on them and weakened the social fabric. The consequences have come to light in the economic and social statistics on poverty, social breakdown, and crime.

The sluggish economy of the early 1990s was especially hard on the poor. The official poverty rate hit its low point in 1973, after falling sharply for most of the previous decade. Since then, increases in poverty during recessions have outpaced reductions in poverty during recoveries.

By 1992, the poverty rate had risen to nearly 15 percent. That year, more than one in five of the Nation's children were poor.

WHAT THE ADMINISTRATION HAS ACHIEVED

To bring the economy back to health, the Administration sought to tackle the budget deficit while promoting prosperity by investing in education and training, and science and technology; by opening new markets; and by keeping interest rates and inflation in check.

Budget Policy

The President and the last Congress enacted the Omnibus Budget and Reconciliation Act of 1993, designed to reduce the deficits by a combined $505 billion over five years, 1994–98. Because the economy has performed better than even the Administration had predicted, we now expect those deficits to fall by $697 billion over the same period, even without further steps to reduce them.

The President's 1993 economic plan, which still governs U.S. fiscal policy, achieved over half of its $505 billion of deficit reduction through spending cuts ($255 billion), and the rest through tax measures designed to increase the progressivity of the tax code and also raise revenue. It made deep cuts in discretionary spending and entitlement programs. It extended through 1998 the annual limits, or "caps," on discretionary spending that Congress first imposed in 1990. (This budget would extend them even further.) In addition, it cut entitlements by $98 billion.

Nevertheless, the President's plan also expanded the Earned Income Tax Credit (EITC), which rewards work for those in the lowest-income brackets. The EITC makes work pay. It offers a positive inducement to low-income families to enter the working world and avoid the cycle of dependency. The plan raised the rate of the EITC, expanded it to provide tax relief to more lower-income working families with children, and extended the credit to apply, at lower rates, to low-income workers without children.

In the 1993 plan, only one revenue increase affected typical American households—a 4.3 cent per gallon increase in the Federal excise tax on gasoline. The change was well timed; it occurred while gas prices were falling, so it imposed little or no extra burden on households. Moreover, the plan brought down interest rates, saving these typical households sizable sums on home mortgages and auto and other consumer loans.

All told, about 90 percent of the revenue increases came from households with incomes of over $100,000. To be sure, no one ever wants to raise taxes. But this change was appropriate—given the pressing need to cut the deficit, and given that high-income families prospered so much in the preceding decade. And with the plan at least partly responsible for growth in the economy and the stock market since 1993, these people have prospered in the last three years.

Largely due to the President's plan and the economic growth it helped spur, the deficit fell from $290 billion in 1992 to

$164 billion in 1995; we expect it to remain near this level through 1997. This Nation now has the smallest deficit, relative to the size of its economy, of any developed country in the world except Norway.

At the same time, even with total discretionary spending rising far less than inflation, the President has worked with Congress to reallocate funds to programs that invest in the future and, thus, spur economic growth. While the private sector plays the lead role in creating growth, the Federal Government must play a key supporting role.

Among other things, the President and Congress increased funding for Head Start; Goals 2000 educational reforms; college scholarships; dislocated worker assistance; research and technology; environmental protection; the national forests and parks; Clean Water and Safe Drinking Water revolving funds; community policing; and the operations of the FBI, the Immigration and Naturalization Service, and Federal prisons.

The President and Congress also created and funded the Americorps program that enables students to work in communities while earning funds for college; the Charter Schools program to support public school choice; the School-to-Work Opportunities Act to help young people make a smooth transition from high school to work; and the Federal Direct Student Loan program to make borrowing cheaper and more effective, and to ease the burden of repayment.

Economic Achievements

By addressing the deficit, the Administration helped resolve the economy's short-run problems. The President's plan enabled the Federal Reserve to maintain low interest rates throughout 1993, and financial markets responded by lowering long-term rates.

For example, the yield on ten-year Treasury notes fell from 6¾ percent in late 1992 to 5¾ percent by the end of 1993, helping to end the credit crunch. Interest rates have fluctuated since 1993, but with the fall in the deficit freeing up resources for private investment, investment has boomed ever since.

Real growth accelerated in 1993, but inflation remained firmly in check. Within two years, unemployment fell below six percent, producing the lowest combined rates of unemployment and inflation in three decades (see Charts 2–7 and 2–8).

Job Growth Up, Unemployment Down: Since January 1993, the economy has added 7.7 million net new jobs, an average of 214,000 a month (see Chart 2–9). Over seven million were in the private sector. Over half of the new jobs were in the high-paying professional or managerial categories. The economy created over a million new jobs in the basic industries of construction and manufacturing, including the bellwether automobile industry.

Economic Growth Up: Also since January 1993, real GDP has risen at a 2.6 percent annual rate, roughly triple the average growth rate of the prior three years and faster than such economies as Japan's and Germany's (see Charts 2–10 and 2–11). Since the first quarter of 1993, private sector GDP—excluding government—has grown by 3.2 percent a year.

Inflation Under Control: The Consumer Price Index has risen an average of just 2.7 percent a year since January 1993, marking the smallest three-year rise since the mid-1960s (see Chart 2–12).

Interest Rates Down: In the President's first year, long-term interest rates paid by home buyers, business investors, and the Government fell by over a point. Inflation fears temporarily reversed that drop in 1994, but interest rates fell again in 1995 as inflation fears proved unwarranted and chances for more deficit reduction rose. By the end of 1995, long-term rates were down a full point from their levels of January 1993. Aside from a few months in 1993, long-term rates were at their lowest point since the 1960s (see Chart 2–13).

Household Wealth Up: Lower interest rates improved the financial standing of households by making home ownership more affordable and boosting the stock market. The home ownership rate rose to 65.1 percent by the end of 1995, its highest since 1981. Meanwhile, the stock market has given its strong endorsement on the state of the economy. Since January 1993, the Dow-Jones Industrial average has risen by over 60 percent, with 36 percent of the rise coming in 1995. All other major stock

Chart 2-9. JOB CREATION

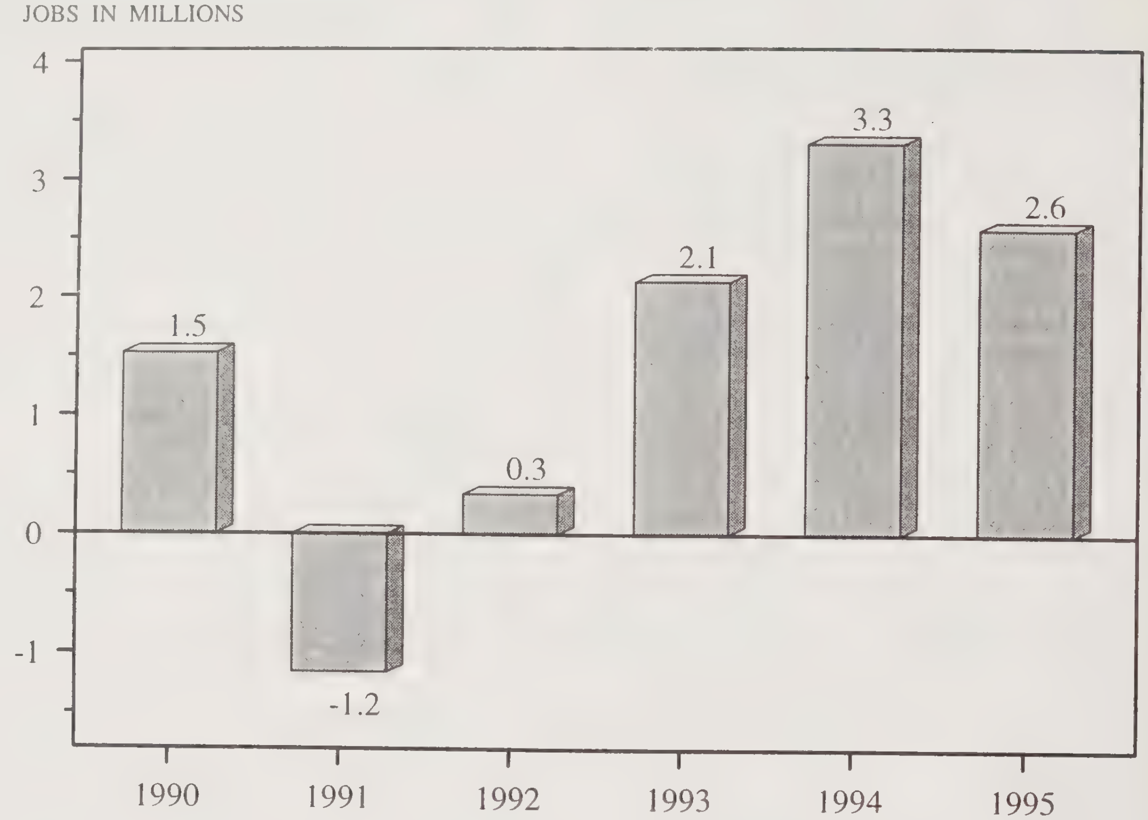
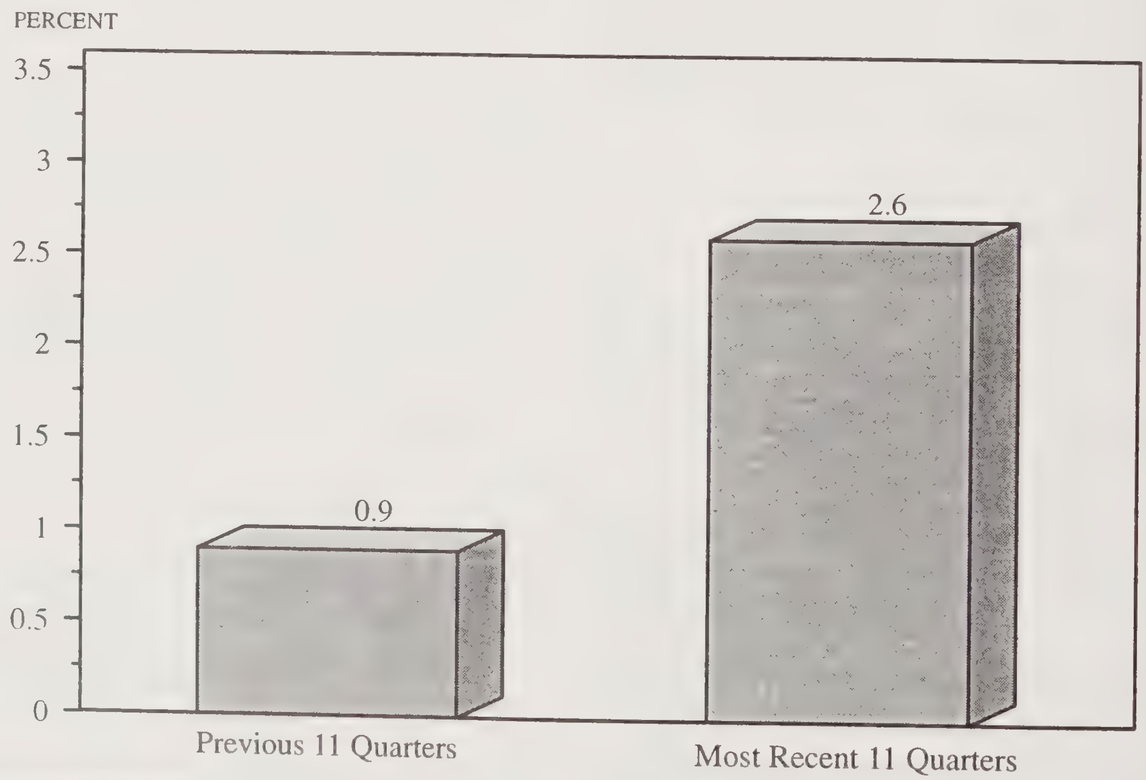


Chart 2-10. ECONOMIC GROWTH
(average annual growth rate of real GDP)



market indexes were up by corresponding amounts.

Exports Up: U.S. exports of goods and services have risen at a rapid 7.6 percent annual rate (after adjusting for inflation) since the first quarter of 1993. Merchandise exports have risen even quicker, at a 9.6 percent rate. The export record is particularly impressive in light of the anemic growth in some of the other major industrialized countries.

With other economies growing more slowly than America's, our imports should have grown faster than our exports. They did. Consequently, the trade deficit rose through the first half of 1995. But, as the gap in economic growth narrowed a bit in the second half of the year, so did the deficit—it fell between June and December of 1995, from $11.4 billion to $6.8 billion. The bilateral deficit with Japan dropped from an annual rate of $64.7 billion in the first half of 1995 to $56.3 billion in the second half.

Progress Against Unfavorable Long-Term Trends

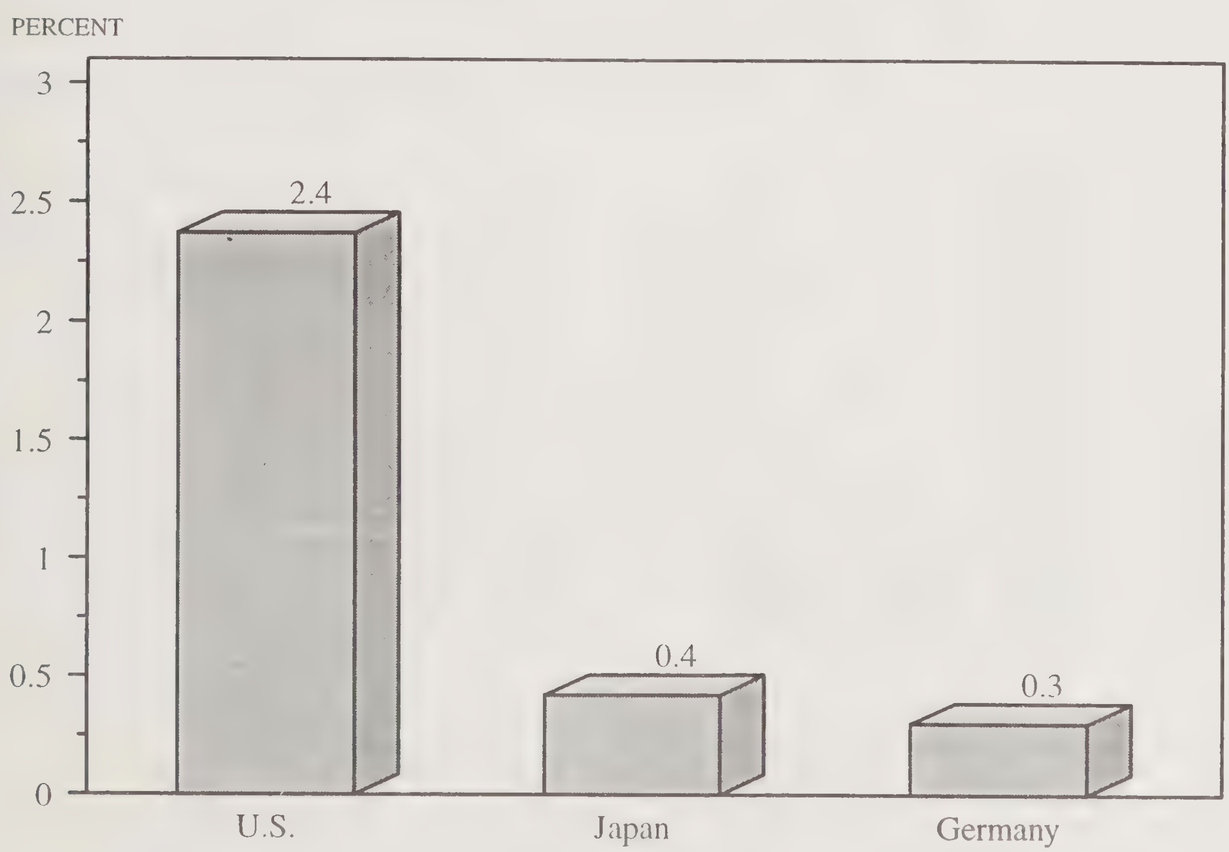
As we have seen, the economy as a whole has improved markedly in the last three years. To be sure, we face the ongoing challenge of addressing the fundamental factors that determine long-term prosperity. Even for those, however, various signs of progress appeared in 1994, the last year for which statistics are available.

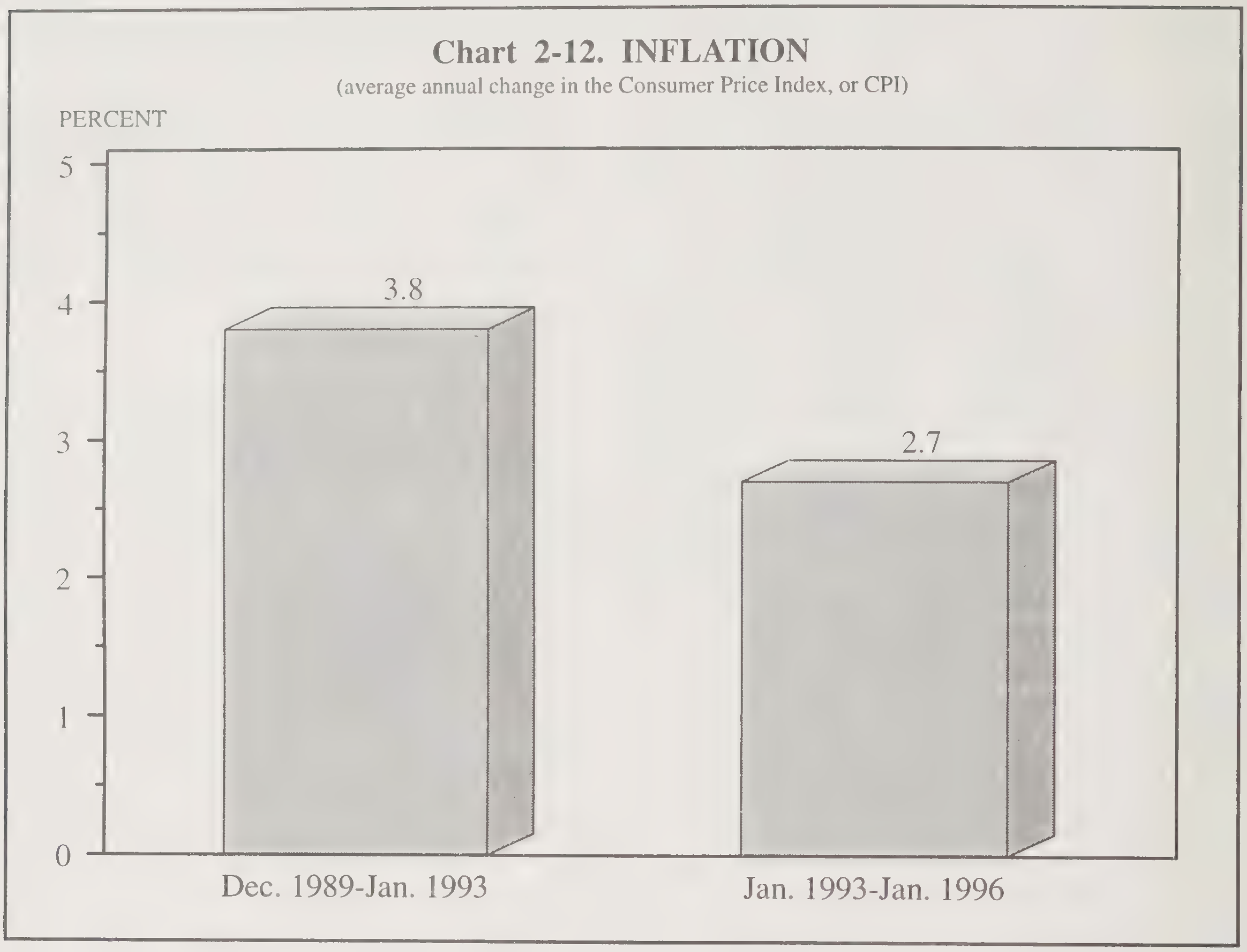
That year, median family income rose while the poverty rate—and, importantly, the poverty rate for children—fell. Real incomes grew in all five quintiles of the income scale for the first time in five years (see Chart 2–14).

Further improvement may have occurred last year, given the favorable levels of unemployment and growth in real income. The President's program is designed to do even more by creating opportunity and encouraging responsibility (see Chapters 5 through 12)

Chart 2-11. COMPARATIVE GROWTH RATES

(average annual growth rates of real GDP, Q4/1992 to Q2/1995)





and providing tax relief to millions of middle-income families (see Chapter 12).

Productivity growth has only begun to rise, and the final pay-off of deficit reduction has not yet arrived. But the fundamental economic changes are in the right direction.

In the coming years, the saving and investment boom of the last three years will generate higher incomes by enabling workers to produce and earn more. In the near term, the main effect of higher investment has been to lower unemployment—itself an early step toward greater prosperity.

A PRUDENT LOOK AT THE ECONOMIC FUTURE

In its economic assumptions, the Administration projects a continuation of current favorable economic conditions. The assumptions are reasonable and conservative.[1]

Specifically, they project:

- Real GDP growth (on the new chain-weighted basis[2]) that averages 2.3 percent a year through 2002, in line with private forecasters and CBO—about a half-point a year less than what the Administration has achieved over the last three years;
- The unemployment rate to remain stable at 5.7 percent, close to its current level and within the range that it has maintained for over a year;

[1] For a more detailed explanation of the Administration's economic assumptions, see *Analytical Perspectives,* Chapter 1.

[2] The Government now measures growth on the new basis that the Bureau of Economic Analysis introduced in January 1996.

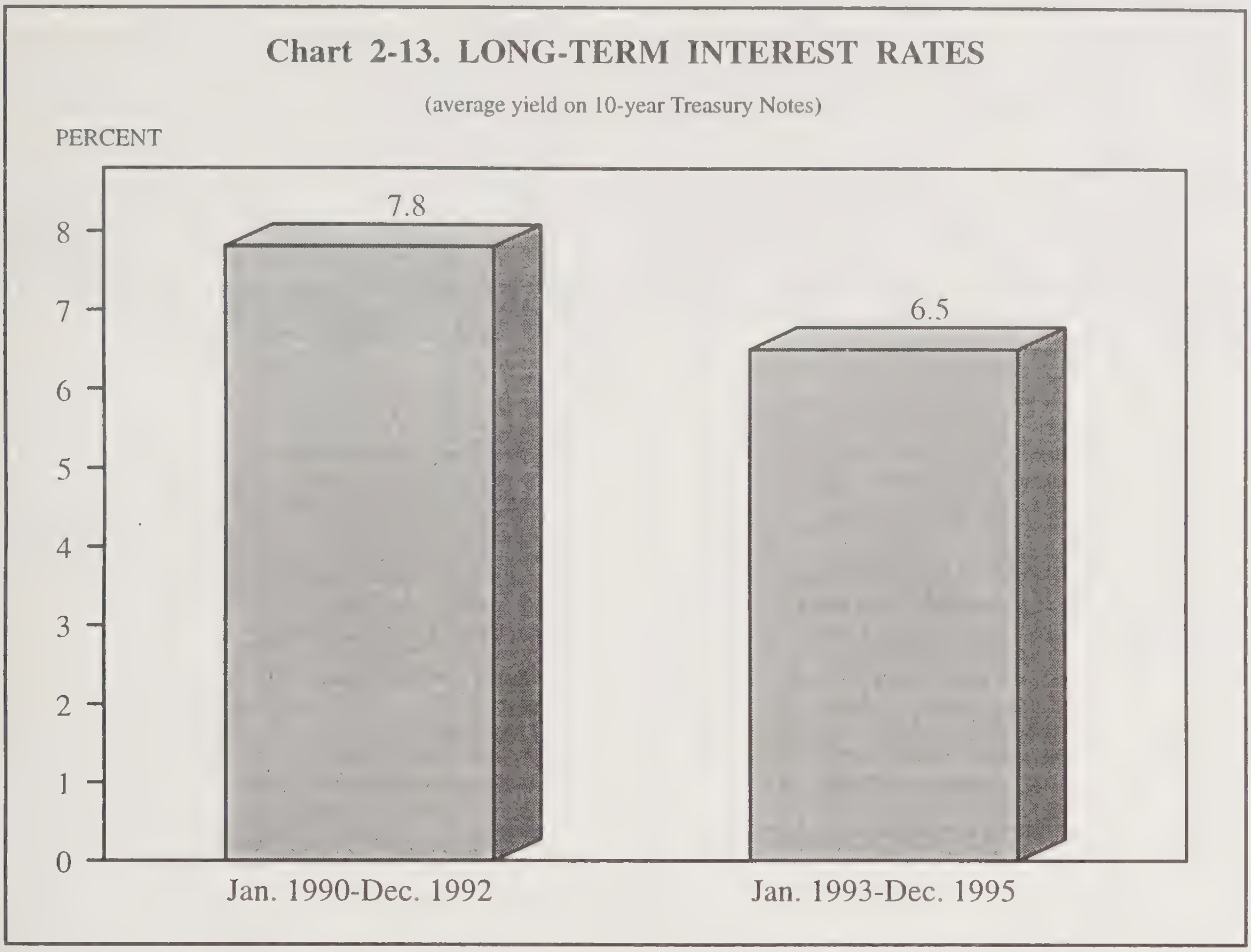


Chart 2-13. LONG-TERM INTEREST RATES
(average yield on 10-year Treasury Notes)
PERCENT
8
7
6
5
4
3
2
1
0
7.8
6.5
Jan. 1990-Dec. 1992
Jan. 1993-Dec. 1995

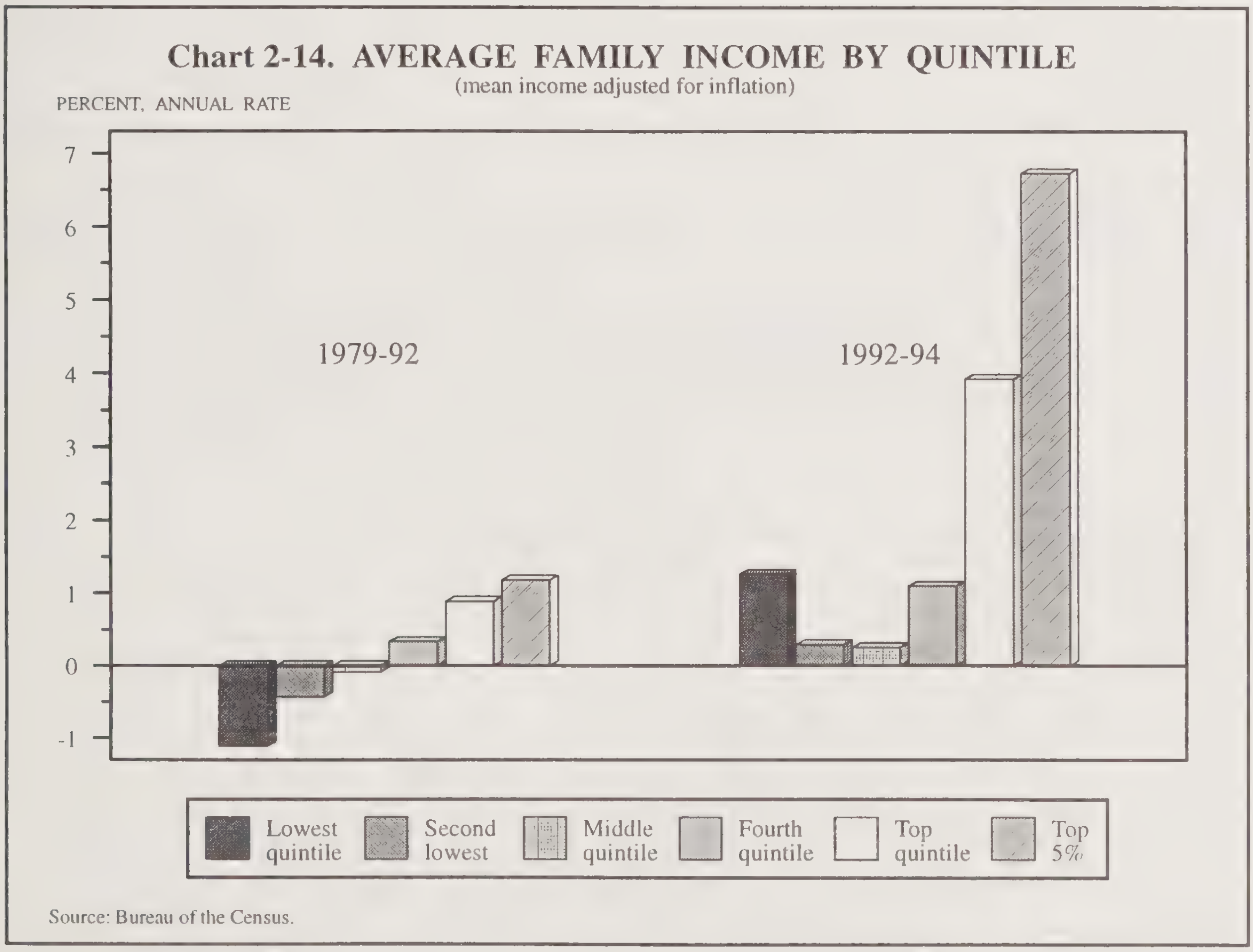


Chart 2-14. AVERAGE FAMILY INCOME BY QUINTILE
(mean income adjusted for inflation)
PERCENT, ANNUAL RATE
7
6
5
4
3
2
1
0
-1
1979-92
1992-94
Lowest quintile
Second lowest
Middle quintile
Fourth quintile
Top quintile
Top 5%
Source: Bureau of the Census.

- An increase in the CPI of about 2.8 percent a year from 1998 to 2002, about the same as it averaged in the previous three years; and
- The 10-year Treasury bond rate to fall by 1.1 percentage points over the next four years as the deficit continues to decline. Over the past year, the rate has fallen by two percentage points.

These economic assumptions presume that Congress adopts the President's proposals—most fundamentally that the President and Congress put the budget on a path to balance by 2002—and that the progress will be evident to households, businesses, and investors. For this reason, the Administration expects to see declines in interest rates, stimulating sustained growth and investment.

Table 2–1. ECONOMIC ASSUMPTIONS[1]

(Calendar years; dollar amounts in billions)

	1994 Actual	Projections							
		1995	1996	1997	1998	1999	2000	2001	2002
Gross Domestic Product (GDP):									
Levels, dollar amounts in billions:									
Current dollars	6,931	7,254	7,621	8,008	8,417	8,848	9,295	9,772	10,268
Real, chained (1992) dollars	6,604	6,742	6,888	7,047	7,212	7,380	7,553	7,730	7,911
Chained price index (1992=100), annual average	105.0	107.6	110.6	113.6	116.7	119.9	123.1	126.4	129.8
Percent change, fourth quarter over fourth quarter:									
Current dollars	5.9	4.1	5.1	5.1	5.1	5.1	5.1	5.1	5.1
Real, chained (1992) dollars	3.5	1.5	2.2	2.3	2.3	2.3	2.3	2.3	2.3
Chained price index (1992=100), annual average	2.3	2.5	2.8	2.7	2.7	2.7	2.7	2.7	2.7
Percent change, year over year:									
Current dollars	5.8	4.7	5.1	5.1	5.1	5.1	5.1	5.1	5.1
Real, chained (1992) dollars	3.5	2.1	2.2	2.3	2.3	2.3	2.3	2.3	2.3
Chained price index (1992=100), annual average	2.3	2.5	2.8	2.7	2.7	2.7	2.7	2.7	2.7
Incomes, billions of current dollars:									
Personal income	5,750	6,104	6,416	6,716	7,025	7,337	7,664	8,031	8,434
Wages and salaries	3,241	3,420	3,607	3,801	3,995	4,193	4,403	4,629	4,864
Corporate profits before tax	528	602	650	702	753	800	843	882	917
Consumer Price Index (all urban):[2]									
Level (1982–84=100), annual average	148.2	152.4	156.6	161.3	165.9	170.5	175.3	180.2	185.2
Percent change, fourth quarter over fourth quarter	2.6	2.7	3.1	2.9	2.8	2.8	2.8	2.8	2.8
Percent change, year over year	2.6	2.8	2.8	3.0	2.8	2.8	2.8	2.8	2.8
Unemployment rate, civilian, percent:									
Fourth quarter level	5.6	5.6	5.7	5.7	5.7	5.7	5.7	5.7	5.7
Annual average	6.1	5.6	5.7	5.7	5.7	5.7	5.7	5.7	5.7
Federal pay raises, January, percent:									
Military	2.2	2.2	2.6	3.0	3.1	3.1	3.1	3.1	3.1
Civilian[3]	....	2.0	2.0	3.0	NA	NA	NA	NA	NA
Interest rates, percent:									
91-day Treasury bills[4]	4.3	5.5	4.9	4.5	4.3	4.2	4.0	4.0	4.0
10-year Treasury notes	7.1	6.6	5.6	5.3	5.0	5.0	5.0	5.0	5.0

NA=Not available.

[1] Based on information available as of mid-January 1996.

[2] CPI for all urban consumers. Two versions of the CPI are published. The index shown here is that currently used, as required by law, in calculating automatic adjustments to individual income tax brackets. Projections reflect scheduled changes in methodology.

[3] Percentages for 1994–1996 exclude locality pay adjustments. Percentages to be proposed for years after 1997 have not yet been determined.

[4] Average rate (bank discount basis) on new issues within period.

PROJECTING AMERICAN LEADERSHIP

PROJECTING AMERICAN LEADERSHIP

The age of possibility, about which the President has spoken, extends beyond American borders to the world at large. The end of the Cold War and the spread of democracy and free markets across the globe offer the promise of a safer, more prosperous world and a more secure America.

Nevertheless, the world is not without its dangers. Indeed, the Nation faces an international arena of unprecedented uncertainty, with new dangers that know no borders and that do not fit neatly into the convenient framework of the Cold War.

It is a world in which the line between foreign and domestic issues is increasingly blurred. With American standards of living increasingly dependent on how well our businesses compete overseas, what we do abroad matters a great deal for how well we live at home. Put simply, retreat from the international arena is not an option for the United States.

On the diplomatic front, our leadership has helped ease tensions, end conflicts, and bring peace in Europe, the Middle East, North Korea, and elsewhere over the last three years. And through trade and overseas assistance programs, we are helping spur democracy, expand markets, promote our exports, and meet humanitarian needs.

When needed, we have called on our military forces—the world's strongest and best prepared—to promote our interests and sustain the peace. For 1997 and beyond, the budget would ensure that our forces remain ready and obtain the best military technology to continue to do their job.

3. ADVANCING UNITED STATES LEADERSHIP IN THE WORLD

> *All over the world, even after the Cold War, people still look to us to help them seek the blessings of peace and freedom.... The United States can and should be the very best peacemaker.... By keeping our military strong, by using diplomacy where we can and force where we must, by working with others to share the risk and cost of our efforts, America is making a difference for people here and around the world.*
>
> President Clinton
> January 1996

The budget provides the resources to support American diplomatic leadership in defending our interests and promoting democracy, free markets, and peace throughout the world.

The call and the opportunity for American leadership have never been greater. At a time when major threats to the United States are few, the opportunity to expand the reach of democracy and free markets is great. At the same time, new challenges to our well-being and to world peace have arisen—from regional, ethnic, and national conflicts; to the proliferation of weapons of mass destruction; to international terrorism and crime, narcotics trading, and environmental degradation.

In this environment, the United States is uniquely suited to lead. And, in this environment, the Nation must not foolishly, and shortsightedly, withdraw into isolationism and protectionism and deny ourselves the resources we require to provide that leadership.

The President proposes $19.2 billion for international affairs, slightly over 1 percent of the budget and 0.25 percent of Gross Domestic Product. Nearly all industrialized countries spend a greater portion of their income on international activities.

As America engages overseas, we must first ensure that we promote and protect our interests in regions that are critical to our security. Over the past three years, our achievements have been heartening.

Spurring Foreign Policy Achievements

Through skilled diplomacy, the judicious use of the world's finest military force, and the careful provision of foreign assistance, the United States has promoted peace and reduced threats to our security to a remarkable extent. Though problems obviously remain in the Middle East, the seemingly intractable hostility between Arabs and Israelis is giving way gradually to a recognition that the people of the region can benefit far more from cooperation than confrontation. We continue to lead in promoting the peace process, particularly between Syria and Israel.

In Europe, U.S. leadership in NATO proved critical in bringing an end to the longest and bloodiest conflict on that continent since World War II. American diplomacy, forces, and assistance programs are now offering hope to Bosnians and others in a region torn by struggle for over four years. Our decision to lead in ending this conflict has brought together a coalition of nations providing forces and assistance to the new Federation.

Nor is Bosnia the only American success in Europe. Though the peace process in Northern Ireland remains difficult, it has made more progress in the past two years than it has in decades—thanks, in part,

to our leadership in helping to bring the parties together.

In Central Europe, which was at the heart of the Cold War struggle, challenges continue on the road to democracy and free markets. Yet the amount of change, which our support and strong leadership helped to spur, is truly amazing. In many cases, Central European economies are free and largely privatized. Gradually, these countries—for example, Poland, the Czech Republic, and Hungary—are becoming strong U.S. trading and diplomatic partners and, along with some of Europe's other new democracies, are well on their way to integration with the trans-atlantic community.

While progress is slower in the New Independent States, U.S. relations with Russia are strong and vital; in that critical country, the United States has provided unwavering support for the movement to democracy and free markets. We also have new, strong partnerships with other key countries in the region, such as Ukraine.

In Asia, America created an international coalition to end the threat of nuclear proliferation in North Korea. The North Korean framework agreement continues to move forward with international assistance. We maintain a strong diplomatic and economic relationship with Japan and are building a better, though complex, relationship with China.

In our own Western Hemisphere, we have also led the way in promoting democracy and healthy trade and investment relationships. Most notably, U.S. leadership restored democratic government and freedom to the people of Haiti, where the first peaceful transition from one elected president to another has just occurred.

Promoting Our Security Objectives

The budget continues to support our Nation's critical security objectives.

The budget will provide funding for international security assistance, especially critical to the Middle East peace process, at $5.8 billion (see Table 3–1). Of this amount, $5.3 billion in military financing grants and economic support (about the same as in 1996) would help further the peace process.

In addition, the budget proposes to partly finance the cost of a squadron of F–16 aircraft to Jordan, in recognition of the risks that King Hussein is taking to advance the Middle East peace process. Separately, the Administration has requested funds in 1996 to initiate this important program.

The budget proposes to provide foreign military financing grants to our emerging partners in Central and Eastern Europe under

Table 3–1. INTERNATIONAL DISCRETIONARY PROGRAMS

(Budget authority, dollar amounts in millions)

	1993 Actual	1995 Actual	1996 Estimate [1]	1997 Proposed	Dollar Change: 1993 to 1997	Percent Change: 1993 to 1997
International development and humanitarian assistance	8,900	8,441	7,061	7,472	–1,428	–16%
International security assistance	6,148	5,670	5,915	5,828	–320	–5%
Conduct of foreign affairs	4,300	4,061	3,951	4,164	–136	–3%
Foreign information and exchange activities	1,247	1,421	1,115	1,162	–85	–7%
International financial programs	599	536	553	567	–32	–5%
Total, International discretionary programs	**21,194**	**20,129**	**18,595**	**19,193**	**–2,001**	**–9%**

[1] Includes Administration's proposed adjustments to 1996 continuing resolution levels.

the President's Partnership for Peace initiative, which would help these countries meet the conditions for membership in NATO. Economic support fund grants to countries such as Haiti and Cambodia are designed to help consolidate recent democratic gains in those countries.

The budget proposes to continue assistance to support the transition to democracy and free markets in Central Europe and the peace process in the Balkans. Specifically, it proposes $475 million for assistance programs in the region. While the budget continues to phase down assistance to northern tier countries, it includes the second $200 million installment toward economic reconstruction funding for Bosnia. The Administration has already requested the first installment of this program as a supplement to the 1996 budget.

Burden sharing is especially strong in this program; the United States is providing only 20 percent of the bilateral reconstruction assistance that Bosnia will receive. This aid would help restore municipal infrastructure that was severely damaged by the war, and would offer financing for small, private enterprises in order to rapidly boost employment. By 1997, the economic recovery that this aid should foster would permit a gradual phasedown in humanitarian aid.

U.S. assistance to the New Independent States of the former Soviet Union would continue at $640 million. Given the potential for political and economic change in this region, legislative earmarking of the funds by country and activity is particularly inappropriate and may frustrate the achievement of objectives it is designed to reach.

Promoting Trade

America's second major international goal is to promote an open trading system, which will contribute to U.S. economic prosperity. We have gone a long way toward laying the groundwork for sustained, non-inflationary growth into the next century, most notably with implementation of the North American Free Trade Agreement and the multilateral trade agreements concluded during the Uruguay Round. In addition, we have more closely integrated the Government's many trade promotion activities through the Trade Promotion Coordinating Committee, creating synergy among agency trade programs, significantly improving American business' ability to win contracts overseas, and creating export-related jobs at home. Consequently, we expect the recent increases in U.S. exports to continue, leading to major U.S. economic and job gains.

The budget puts a high priority on programs that help U.S. exporters meet foreign competition and seize the opportunities that trade agreements offer.

The Trade and Development Agency makes grants for feasibility studies of capital projects abroad, and the Overseas Private Investment Corporation insures and finances U.S. investment in developing countries. The activities of both agencies are designed to help increase exports, and the budget holds 1997 funding levels close to or above the 1996 enacted level.

A larger source of support for exports is the Export-Import Bank, which offers loans, loan guarantees, and insurance for exports, primarily of capital goods. The budget maintains funding levels for the Bank's core export financing and insurance programs.

Finally, Commerce Department programs promote U.S. trade, especially through the International Trade Administration (ITA) and its U.S. Export Assistance Centers. The budget proposes a slight increase for the ITA, compared to 1996 funding levels.

Bilateral development assistance through the U.S. Agency for International Development (USAID) and contributions to the multilateral development banks (MDBs) also support U.S. exports. In the near term, development assistance promotes American exports by financing development projects abroad which import American goods (such as imports of American bulldozers to build a U.S.-financed road). In the longer term, dynamic economies in developing countries create strong commercial demand for U.S. exports (as illustrated by recipients of development aid in East Asia). For 1997, the budget proposes that USAID development assistance grow by four percent, to $1.7 billion.

The budget proposes that U.S. contributions to the World Bank and the regional development banks grow to $1.4 billion, a 24 percent increase over 1996. Congress cut the President's MDB budget request by 50 percent in 1996, reflecting a serious misunderstanding of how important MDBs are—they not only help the United States achieve its economic development and export promotion objectives, they also leverage our foreign assistance dollars through contributions from other donors.

When the World Bank, the first MDB, was established at the end of World War II, the United States provided nearly all of the international funding. Today, the average U.S. share of annual contributions to the MDBs is only slightly over 20 percent. Moreover, the MDBs, particularly the World Bank group, are coordinating multilateral and bilateral assistance programs and providing large-scale funding to countries and regions of critical importance to the United States—the Middle East, Bosnia, South Africa, the New Independent States, and Central and Eastern Europe.

Addressing New Threats

The third goal of our international leadership is to address the new transnational threats to U.S. and global security and prosperity: the proliferation of weapons of mass destruction, drug trafficking and the spread of crime and terrorism on an international scale, unrestrained population growth, and environmental degradation.

U.S. diplomacy and law enforcement activities are playing a key role in preventing the spread of nuclear and other major destructive weapons, particularly to outlaw states like Libya, Iraq, and Iran. The Defense Department's Nunn-Lugar program and the State Department's Nonproliferation and Disarmament Fund are important parts of our commitment. (For additional information on the Nunn-Lugar program, see Chapter 4.)

U.S. bilateral assistance programs relate directly to solving other transnational problems. For example, assistance programs emphasize source-country approaches to the war on drugs. The budget proposes $213 million for the State Department's narcotics and anti-crime programs, nearly double the 1996 level. In addition, USAID carries out large and successful programs to improve the environment, and America is a recognized world leader in promoting safe and effective family planning projects. The budget requests over $700 million to meet the needs in these two sectors.

The United States also plays a key leadership role as the world community addresses these problems. The United Nations and its related specialized agencies, such as the World Health Organization and the International Atomic Energy Agency (IAEA), are important mechanisms for such international cooperation. In some instances, such as the U.N.'s and IAEA's efforts to identify and destroy Iraq's weapons of mass destruction, international organizations prove an indispensable vehicle to help us achieve our national interests.

Meeting Our U.N. Commitments

The United States has provided leadership to these international organizations for over 40 years. Today, that leadership is under attack, threatened by sharp cuts in appropriations for U.S. contributions to the organizations. For many of these institutions, member-country contributions are mandated by treaty; when America fails to meet its commitments, it accumulates arrears.

For the United Nations, related organizations, and peacekeeping, U.S. arrears have now grown to roughly $1 billion. The Administration recognizes the need for serious reform in the United Nations and related organizations and is leading the effort. The budget seeks full funding for our current obligations to these institutions, as well as a down payment on clearing the arrears, linked to accomplishing needed reforms.

The United States also makes voluntary contributions to a variety of international organizations principally involved in development, population, and environmental programs, such as UNICEF, the U.N. Development Program, the U.N. Population Fund, and the program created under the Montreal Protocol to protect the ozone layer. Because our leadership is critical to the success of

these organizations, the budget proposes a 14 percent increase in funding.

Providing Humanitarian Assistance

Finally, humanitarian and disaster relief remains a major international need, especially in areas with regional conflict. The budget proposes $1.7 billion to continue our global role, which has enjoyed bipartisan support, in providing American humanitarian relief for the victims of natural and man-made disasters.

Disaster relief programs in USAID and humanitarian feeding under Public Law 480 would continue slightly above 1996 spending levels. Funding for refugees would fall by three percent, to $700 million, due to the end of the refugee problem in Southeast Asia and the expected return of several million refugees and displaced persons to their homes in Bosnia under the peace settlement. The budget proposes to keep large-scale assistance available for the continuing refugee needs in Africa and the Near East.

4. SUPPORTING THE WORLD'S STRONGEST MILITARY FORCE

> *The men and women of our armed forces remain the foundation, the fundamental foundation of our security. You put the steel into our diplomacy. You get the job done when all means short of force have been tried and failed.*
>
> President Clinton
> May 1995

America's defense capability is the bulwark that sustains and supports its foreign policy.

- Only when U.S. forces were about to land could our negotiators convince an unwelcome dictatorship to leave Haiti; we then reinstalled the rightful democratically-elected leader and, in the process, stemmed the large-scale migration from Haiti to our borders.
- With Iraq once again threatening Kuwait, we moved quickly to send additional forces to the region, averting another crisis.
- We saved hundreds of thousands of lives by employing our military forces in humanitarian efforts in Rwanda.
- Finally, the resolve shown in the NATO air campaign and the promise of U.S. military involvement in securing a peace was pivotal in bringing the warring factions in Bosnia to the negotiating table and achieving the Dayton Peace Accord; U.S. forces are now leading the cooperative NATO effort to enforce that agreement.

Because the United States must lead, and our forces must prevail when called to fight in a world of new post-Cold War threats, the budget proposes to continue sustaining and modernizing the world's strongest, best-trained, best-equipped, and most ready military force.

The budget continues the Administration's defense funding plan, supporting our military forces with quality of life improvements and the best technology we can develop. The budget also supports the President's commitment to arms control and to reducing the dangers of nuclear weapons at home and abroad.

Sustaining a Strong Military Capability

U.S. military forces must deter our adversaries and reassure our friends and allies that America is prepared to use force to defend its interests.

When committed to combat, U.S. forces must win decisively. They must be highly ready and armed with the best equipment that technology can provide. They must be prepared and trained for the new threats of the post-Cold War era, many of which know no national borders: the proliferation of weapons of mass destruction; ethnic and regional conflicts that undermine stability; and terrorism and drug trafficking, which directly threaten our free and open society.

Today, the United States is the only nation with the logistics, mobility, intelligence, and communications capabilities required to conduct large-scale, effective military operations on a global basis. Coupled with our unique position as the preferred security partner in many regions, our military capability provides a foundation for regional stability through mutually beneficial partnerships. Our willingness and ability to play a leading role in defending common interests help ensure that we retain a strong leadership position in the world.

The budget builds upon the Administration's policy of the last three years—sustaining and modernizing the world's strongest and

Table 4–1. MILITARY FORCE TRENDS

	1989 Cold War	1997	Target Force
Active Forces:			
Army Divisions	18	10	10
Navy Aircraft Carriers [1]	16	11	11
Navy Air Wings	13	10	10
Navy Surface Combatants and Attack Submarines	287	192	161–171
Marine Divisions and Air Wings	3	3	3
Air Force Tactical Wings	25	13	13
Reserve Forces:			
Army Combat Brigades	57	42	42
Navy Air Wings	2	1	1
Navy Aircraft Carrier	0	1	1
Other Navy Ships	26	17	15
Marine Divisions/Air Wings	1	1	1
Air Force Tactical Wings	12	7	7
Nuclear Deterrent: [2]			
Intercontinental Ballistic Missiles	1,000	580	500
Ballistic Missile Submarines (Missiles)	32 (576)	17 (408)	14 (336)
Bombers	359	174	86
Mobility Forces:			
Strategic Airlift Aircraft	431	389	283
Sealift Ships [3]	162	152	149
Military Personnel (in thousands):			
Active Forces	2,130	1,457	1,418
Guard and Reserve Forces	1,171	901	893

[1] Includes one non-deployable training carrier in 1989.

[2] Assumes START II ratification and entry into force. Does not include 95 B–1 bombers dedicated to conventional missions in 2002 or in the Target Force.

[3] Includes ships in the Ready Reserve Force maintained by the Department of Transportation but funded by DOD.

most ready military force, capable of prevailing with our regional allies in two nearly simultaneous regional conflicts. The budget maintains our commitment to high levels of training and readiness for that force and equipping it with technology second to none (see Table 4–1).

Providing Budget Levels that Ensure a Strong Defense

For programs in the National Defense function (050), the budget proposes 1997 discretionary funding of $255.1 billion in budget authority and $259.4 billion in outlays. This overall function includes the activities of the Department of Defense-Military (051), Atomic Energy Defense Activities (053), and other Defense-Related Activities (054).

Table 4–2 shows budget authority and outlay levels for these functions through 2002.

For Department of Defense (DOD) military functions (051), the budget proposes $243.4 billion in budget authority and $248.3 billion in outlays for 1997. After 1997, the budget reflects the impact of lower estimates of inflation, offset by the planned increases needed to modernize our military forces. DOD funding would roughly keep pace with inflation through 1999, then increase slightly faster than inflation through the rest of the five-year planning period.

The budget continues the Administration's defense funding plan of the last three years, which provides for a careful resizing of our

Table 4–2 FUNDING SUMMARY FOR NATIONAL DEFENSE

(Discretionary funding, in billions of dollars)

	1995 Actual	1996 Estimate	Proposed					
			1997	1998	1999	2000	2001	2002
Department of Defense-Military (051):								
Budget Authority	257.4	252.6	243.4	248.9	255.0	262.4	270.3	277.3
Outlays	261.2	255.3	248.3	244.7	247.3	254.6	257.3	265.6
Atomic Energy Defense Activities (053):								
Budget Authority	10.1	10.6	10.9	10.0	9.1	8.2	9.4	10.6
Outlays	11.7	10.2	10.5	10.2	9.3	8.4	8.8	9.9
Other Defense Related Activities (054):								
Budget Authority	0.4	0.7	0.8	0.4	0.3	0.3	0.3	0.4
Outlays	0.7	0.9	0.6	0.6	0.5	0.5	0.5	0.6
Total National Defense (050):								
Budget Authority	267.9	263.9	255.1	259.3	264.4	270.9	280.0	288.3
Outlays	273.6	266.4	259.4	255.5	257.1	263.5	266.6	276.1

military forces, ensures full support in the near term for military readiness and quality of life, and provides properly for modernizing our forces as new technology comes on line later in the decade.

We have carefully recalibrated this defense plan over the past three years in response to experience and events. Reflecting the findings of a 1993 review of previously assumed but unrealized savings, we increased the 1994 defense budget. As pay levels rose, we adjusted defense budgets accordingly. In December 1994, we added $25 billion to our long-term defense plan to provide for readiness and quality of life initiatives and for real growth in 2000 and 2001 to purchase new military hardware.

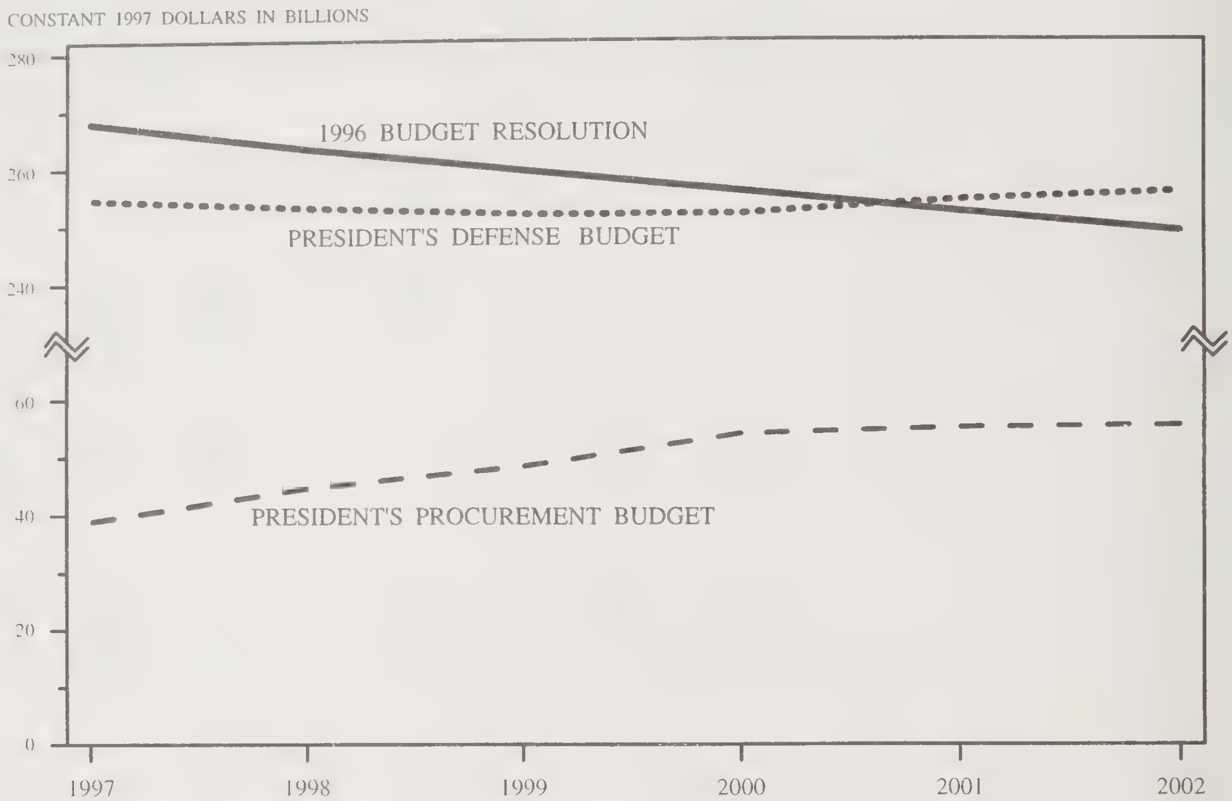
The President's plan is a rational, careful approach to defense funding. By contrast, in 1996 Congress provided $7 billion more than the Administration requested, principally for military hardware programs that the services have said they do not need or had planned to request later.

These additional funds mean that, overall, 1996 funding for DOD military functions is higher than the 1997 proposed level—and observers might take that to mean that most programs funded in 1996 would face cuts in 1997. This is not the case. Congress added funding for programs in 1996 that do not require funding in 1997.

As Chart 4–1 shows, our 1997 request returns defense funding to a plan that makes sense, providing increases for modernization at the end of the decade when new technologies become available. By contrast, the congressional plan provides funds for older technologies early, then falls well below the Administration's budget plan at the turn of the century—just as the newer defense technologies for which the military forces are planning will begin production.

Because the President believes that Congress added funds last year for many unnecessary projects, the budget proposes to rescind or cancel some 1996 defense resources.

Chart 4-1. DEFENSE BUDGET, PROCUREMENT, AND THE 1996 CONGRESSIONAL BUDGET RESOLUTION
(discretionary budget authority)



Modernizing Our Military Forces

Relating Procurement to the Total Defense Budget: A key objective of the Administration's defense funding plan is to modernize our military hardware.

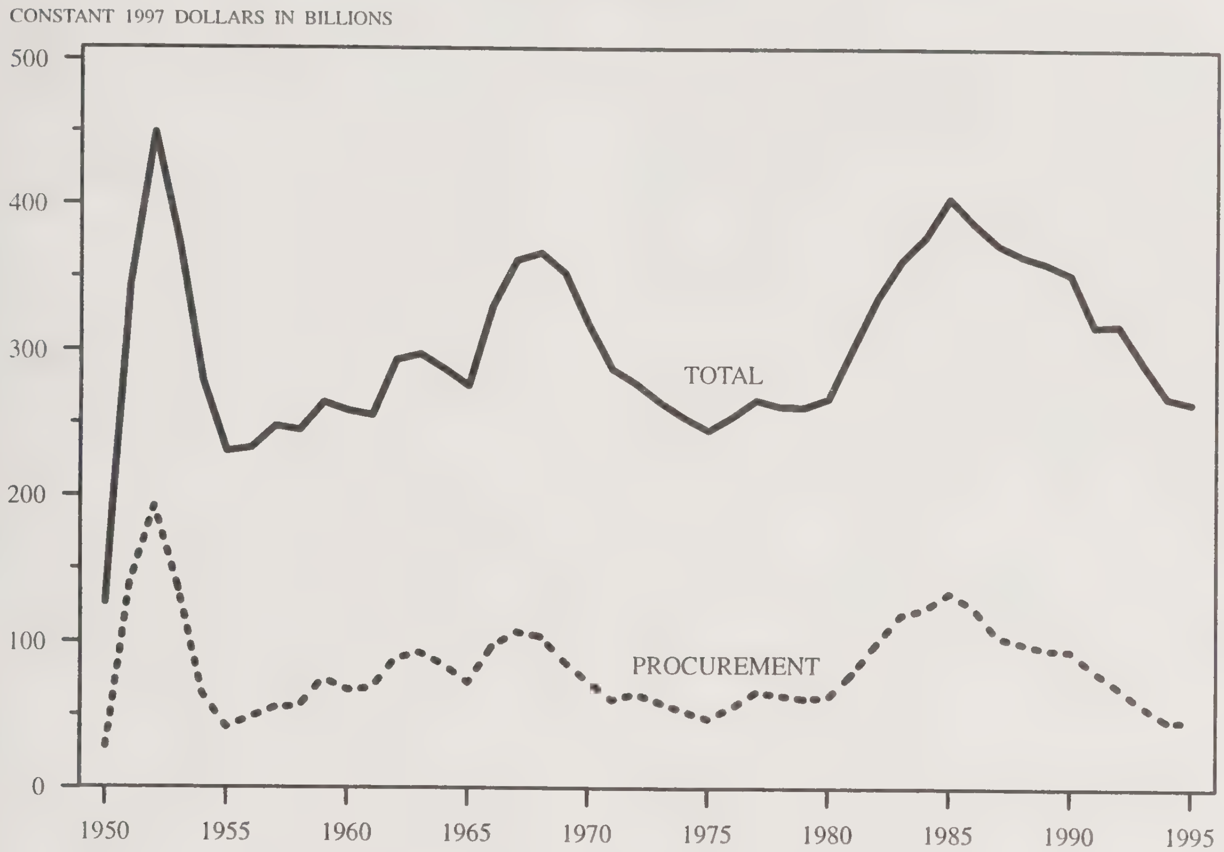
As Chart 4–2 shows, historical changes in procurement funding coincide with changes in total defense funding. In the late 1970s and early 1980s, as the defense budget rose, the President and Congress invested more and more in equipment. These investments funded a wide range of systems (such as fighter aircraft, attack submarines, and armored vehicles) and provided the backbone of today's modern force.

The equipment that the Government bought then is now aging and must be modernized to include the latest technological advances. For example, the average age of Air Force fighter and attack aircraft is about 10 years today, but will grow to around 20 years by 2010. When complex military equipment ages, it becomes costlier and more difficult to maintain and operate. Most important of all, the decisive technological advantage that superior equipment provides means few casualties and the quick, successful resolution of conflict. For all these reasons, modernization is a high priority.

Providing Modernization Funding: The Administration proposes $314 billion from 1997 to 2002 for procurement, so that procurement funding would grow by 42 percent in real terms over the period. Important modernization programs in production would continue, including DDG-51 guided-missile destroyers, the C-17 strategic airlift aircraft, and standoff precision munitions like the Joint Standoff Weapon.

In 1997, low-rate production of Marine Corps V–22 tilt rotor aircraft and the Navy's multi-role F/A-18E/F fighter would begin. Modernization funding would grow in 1998 and

Chart 4-2. DEFENSE TOTALS AND PROCUREMENT BUDGET AUTHORITY



1999 with initial procurement of the Navy's New Attack Submarine and low-rate production of the Air Force's F-22 Advanced Tactical Fighter. Full-rate production of the V-22, F/A-18E/F, and the F-22 would occur at the turn of the century.

Providing Modernization for the Long-Term: The budget proposes large investments in research and development for advanced systems that will enter production in the middle of the next decade. The Air Force, Navy, and Marine Corps are developing a Joint Strike Fighter as a cost-effective replacement for today's tactical fighter and attack aircraft. Other major weapons in development include the Army Comanche helicopter, a new surface ship for the Navy, and an advanced amphibious-assault vehicle for the Marine Corps.

Ensuring the Nation's Security

Achieving Arms Control: The President's policy of stressing arms control to reduce threats from weapons of mass destruction was rewarded by an overwhelming Senate vote for ratification of the START II treaty. Following approval by the Russian Republic, implementation of this seminal treaty, together with the START I Treaty that took effect in December 1994, will bring warheads deployed on long-range missiles and bombers by the former Soviet Union to a third of the Cold War level. By reducing weapons levels on both sides, and by banning land-based missiles with multiple warheads, START II will make the world a much safer place.

To reinforce our arms control efforts, the budget proposes $3.3 billion for a wide range of programs to blunt threats posed by the global proliferation of nuclear, biological, and chemical weapons.

Reducing Weapons of Mass Destruction in the Former Soviet Union (FSU): The Cooperative Threat Reduction program (also known as the Nunn-Lugar program) has contributed greatly to U.S. security. Nunn-Lugar

assistance increased the safety and speed with which states of the FSU have dismantled their nuclear weapons. The budget proposes $328 million to continue this important program in 1997.

Countering Proliferation of Weapons of Mass Destruction: The budget proposes nearly $500 million to develop capabilities to locate and neutralize weapons of mass destruction before they can be used, and to protect U.S. troops against their effects. High-priority efforts include developing the means to identify and destroy underground storage sites, and the methods to detect and track weapons shipments. To protect troops against chemical and biological agents, key efforts include developing advanced detection devices, vaccines, and protective clothing.

Developing and Deploying Defenses Against Tactical Ballistic Missiles: The Administration's Theater Missile Defense (TMD) program is designed to defeat existing and future ballistic missile threats around the world. With over $2 billion in proposed funding (more than two-thirds of the total budgeted for ballistic-missile defense), TMD would provide defenses against those missiles that directly threaten American and allied ground, naval, and air forces deployed abroad. Funding for TMD supports development, as soon as possible, of an advanced version of the Army's Patriot missile and the Navy's Lower-Tier System, as well as the development of more advanced systems to meet future threats.

Developing Options to Defend Against Strategic Ballistic Missiles: The budget proposes $500 million for a vigorous program to develop the central elements of a national missile defense system that could be used to protect the United States. Although the Administration does not believe that such a system is needed now, the development of a contingency capability continues to ensure that deployment could proceed rapidly—if a missile threat emerges sooner than our intelligence community estimates. A decision to force early deployment would not only waste billions of dollars, it would force adoption of immature technologies that would not likely provide an effective defense.

Maintaining Stewardship Over Our Nuclear Capability: The unifying mission of the Department of Energy's (DOE) defense activities is to reduce the global nuclear danger. DOE does this by:

- supporting and maintaining a safe, secure, reliable, and smaller nuclear weapons stockpile without explosive testing of nuclear weapons;
- dismantling excess nuclear weapons;
- providing technical leadership for national and global nonproliferation efforts; and
- reducing the environmental, safety, and health risks from current and former facilities in the nuclear weapons complex.

The budget proposes $10.9 billion for DOE spending on defense activities, a $230 million increase from the 1996 enacted level. Funding for stewardship and management of the nuclear weapons stockpile would rise by $250 million, to $3.7 billion, reflecting the President's commitment to provide sufficient funding for this program next year and over the next decade. The increase is designed to help maintain the safety and reliability of the nuclear weapons stockpile under a comprehensive test ban treaty, which the Administration hopes to complete and sign in 1996.

Undertaking Successful Contingency Operations: U.S. forces are engaged in contingency operations around the world that support American interests and demonstrate international leadership—from monitoring U.N. sanctions on Iraq, to supporting the return to democracy in Haiti, to playing a key role in the NATO-led military force implementing the Dayton Peace Accord in Bosnia and Herzegovina. The budget includes funding for ongoing contingency operations in Southwest Asia, and Bosnia and Herzegovina, to help ensure that we protect force readiness. If Congress approves these funds, and no unexpected new costs arise, DOD can avoid redirecting funds from operations and maintenance programs, thereby maintaining its high level of readiness.

In the 1996 Defense Appropriations Act, Congress funded a portion of the costs of contingency operations in Southwest Asia. The remaining unfunded contingency operations costs, stemming mostly from operations

in Bosnia and Herzegovina, total $2.2 billion. A reprogramming of savings from lower-than-expected inflation can fund nearly half of these costs. Another $620 million is included in a supplemental appropriations request. The Administration submitted these proposals to Congress early this year and plans to submit a second reprogramming to fund the balance of the Bosnia and other contingency costs.

Establishing Information Dominance: Information is power. U.S. preeminence in information technology helps us to field the world's premier military force. The Administration's goal is to continue advances in information technology to support military operations and our national security strategy.

Intelligence is critical to information dominance and it continues to play a large role in military operations and national security decision-making. This year's intelligence budget is guided by explicit intelligence priorities that the President established for the post-Cold War era. We have realigned funds within national and tactical intelligence to better cover the President's top priorities, such as support to military operations and counter-proliferation. The intelligence budget also realigns funds to achieve a better balance between collecting and analyzing information.

A new initiative—the Global Broadcast System—exemplifies the Administration's drive for information dominance. DOD is adapting commercial, direct-broadcast, digital TV technology to provide real-time logistics, weather, and intelligence information to military forces. Commanders equipped with terminals as small as 18 inches would receive instantaneous, secure, high-data-rate information to outsmart, out-maneuver, and out-fight any opponent.

Maintaining the Readiness of Our Forces

Ensuring Adequate Resources for Readiness: The Administration's top defense priority continues to be maintaining the readiness and sustainability of our military forces. The budget provides full funding for operations and support programs critical to sustaining the military's current high readiness levels. These programs include unit training activities, recruiting and retention programs, joint exercises, and equipment maintenance activities. The Administration also proposes funding for humanitarian assistance programs.

DOD has embarked on several initiatives to improve the assessment of current and future military readiness. Of particular note are the Senior Readiness Oversight Council and the Joint Monthly Readiness Review process. These initiatives enhance DOD's ability to ensure that critical readiness programs receive sufficient resources and that our forces remain prepared to accomplish their missions.

Enhancing Quality of Life for Our Military Personnel: The Administration continues to strongly back programs that directly, or indirectly, support military readiness. Our armed forces have been extremely successful in attracting and retaining motivated, high-quality personnel in part because of the Administration's continuing strong commitment to fund quality of life programs. For example, the budget provides military personnel a three percent military pay raise, effective January 1997, and substantial funding to upgrade and improve military barracks and family housing.

Managing our Defense Resources More Efficiently

Implementing Base Closure and Realignment: Since 1988, four Base Closure and Realignment Commissions have recommended the closure of 97 out of 495 major military installations and over 200 smaller installations—about 20 percent of our defense infrastructure. The projected annual savings of $5.8 billion by 2001 would help fund, in part, the modernization of our military forces. To ensure that the Government reaps these savings, the budget proposes increases for 1997–2000 to fully fund the implementation of final recommendations of the 1995 Base Closure and Realignment Commission.

Improving Financial Management: The Administration remains committed to reforming DOD's financial management and accounting systems. DOD's progress includes developing and implementing standard financial systems for civilian payroll, military retirement, transportation, and debt management. Significantly, DOD has cut the category known as problem disbursements from $51 billion in 1993 to $22 billion in 1995.

The Administration is committed to implementing the Chief Financial Officers Act in order to ensure that DOD can produce auditable financial statements. In addition, DOD will continue to pursue the most cost-effective solutions to its finance and accounting needs, which may include contracting out some functions.

Streamlining the Civilian Workforce: DOD plans to continue streamlining its civilian workforce while maintaining the quality of its workers. The budget reflects a cut of over 208,000, or 22 percent, of DOD civilian positions from 1993 to 1999. Consistent with the principles of the Vice President's National Performance Review, DOD is cutting headquarters, procurement, finance, and administrative staffs.

Implementing the Government Performance and Results Act (GPRA): DOD continues to incorporate performance evaluation into its decision-making for such broad-based issues as weapons purchases, transportation methods, and inventory control. It has designated seven programs (including the Defense Logistics Agency and Air Combat Command) as demonstration projects to provide a guide to implementing GPRA fully.

Using the Private Sector for Support Functions: The Commission on Roles and Missions of the Armed Forces (CORM) recommended that, to save money, DOD use the private sector for a number of support functions. In August 1995, the Deputy Secretary of Defense established an Integrated Policy Team for Privatization, which includes senior representatives from the military departments, defense agencies, and the Secretary's staff. They will look for opportunities, identify obstacles, and develop solutions and strategies to support the CORM recommendation. The budget provides funds to accomplish these goals.

CREATING OPPORTUNITY AND ENCOURAGING RESPONSIBILITY

CREATING OPPORTUNITY AND ENCOURAGING RESPONSIBILITY

Opportunity and responsibility—they are the twin pillars of American citizenship. They define who we are as a people and a society.

The opportunity for Americans to live safe, secure, healthy, and prosperous lives comes through their families, neighborhoods and communities, schools, churches and synagogues, civic associations and clubs, and, when necessary, the Federal, State, and local governments.

Americans expect one another to fulfill the responsibilities of citizenship—to obey the law, raise their children, support their families, and participate as full-fledged members of society.

The President proposes to deploy the Federal Government appropriately to create opportunity for all Americans while encouraging responsibility. To meet these goals, the budget would restore communities, strengthen the health care system, make work pay, invest in education and training, protect the environment, promote science and technology, enforce the law, and cut taxes for middle-income Americans and small businesses while making the tax system fairer.

- **Restoring the American Community:** The budget proposes to expand the President's national service program, which encourages Americans of all ages to help solve the problems of communities and earn money to help pay for postsecondary education. It also proposes to designate more Empowerment Zones and Enterprise Communities to spur community revitalization; expand the Community Development Financial Institutions Fund to provide investment in distressed areas; and maintain the Government-to-government commitment to Native Americans.

- **Strengthening Health Care:** The budget proposes to improve Medicare and Medicaid in ways that reflect the President's commitment to expand access to coverage while making the system more efficient. These changes would give Medicare's 37 million beneficiaries more plans to choose from, higher quality care, and a more cost-effective program. And they would maintain and strengthen Medicaid's guarantee of coverage for 36 million vulnerable Americans.

- **Making Work Pay:** Building on the Administration's efforts to date, the budget would repeal the current welfare system, replacing it with one that requires work and provides child care so people can leave welfare for work. Although its efforts are having an impact in making work pay and moving people from welfare to work, the Administration is committed to the necessary next step: to work with Congress on bipartisan welfare legislation that reflects the basic values all Americans share—work, responsibility, and family.

- **Investing in Education and Training:** Today's most successful workers are those with the best-quality education who continue learning throughout their careers to compete successfully. The Federal Government plays a crucial, if limited, role in providing the necessary education and training. The budget continues to invest in education and training, and also builds on previous legislative and management reforms in key Federal programs.

- **Protecting the Environment:** The President wants a Government that helps protect the environment and our natural resources without burdening business, choking innovation, or wasting taxpayer dollars. To meet these objectives, the Administration continues to reinvent the regulatory process to cut excessive regulation and invest in programs that will have the biggest impact in improving the environment, protecting public health, and enhancing natural resources.

- **Promoting Science and Technology:** Because Federal investments in science and technology (S&T) have paid rich dividends in economic growth, national security, and environmental protection, the President is committed to sustaining U.S. leadership in S&T. The budget maintains key investments by adding funds for health research at the National Institutes of Health, for basic research and education at the National Science Foundation, for research at agencies that depend on S&T for their missions, and for cooperative projects with industry and universities.

- **Enforcing the Law:** The budget continues Administration efforts to make the streets safer for all Americans and to secure the Nation's borders. Among its important features, it empowers States and communities to fight crime locally by hiring more police while it funds innovative prevention programs; commits resources to ensure that violent criminals and serious drug traffickers remain behind bars; and targets resources on combating illegal immigration through deterrence, enforcement, and swift deportation.

- **Promoting Tax Fairness:** The budget proposes tax reforms that would promote tax fairness and encourage activities that foster economic growth. The President's tax plan calls for tax cuts that would benefit middle-class families with children, make higher education more accessible, and spur long-term saving. The plan helps small business with more favorable treatment of investment, estate tax relief, pension simplification, and health insurance for the self-employed. And it contains targeted tax relief to promote urban renewal.

5. RESTORING THE AMERICAN COMMUNITY

> *We cannot go on as a Nation of strangers, mistrusting one another because we've never had the chance to work side by side or had the chance to walk in one another's shoes. If we just stand only on our own ground, we will never find common ground .... We are all part of the American family, joined by a national purpose, bound by a common sense of responsibility, challenged by common possibilities that know no limits.*
>
> President Clinton
> September 1994

Communities are the heart of the American experience, the boundaries of much of our lives. They are where we live, where we work, where we worship, where we shop, and where we raise our children and send them to school.

Despite their commonality as the center of American life, communities vary greatly in their financial and social health, with some prospering while others continue to decay. More and more, communities face the problems of crime, violence, drugs, homelessness, unemployment, and poverty. In both urban and rural areas across the country, communities need help in attracting the kind and amount of private investment that could spur their revitalization.

With its wide-ranging proposals that address community needs, the budget is designed to use Federal dollars wisely—not to impose answers from above, but to encourage solutions at the community level. These proposals would create incentives for Americans of all ages to participate directly in addressing local problems, and for financial institutions to invest, create jobs, lend to would-be homeowners and entrepreneurs, and rehabilitate rental housing. And they would maintain the Federal Government's special relationship with Native Americans, providing funds to address special needs.

National Service

National service is rooted in American values of performing community service, rebuilding communities, rewarding personal responsibility, expanding educational opportunity, and fostering a sense of common good. Established two years ago, the Corporation for National and Community Service is engaging Americans of all ages and backgrounds to solve problems inside America's communities.

The Corporation's signature initiative is AmeriCorps, which includes the Volunteers in Service to America program, VISTA. AmeriCorps enables young Americans of all backgrounds to serve their local communities full- or part-time. In return, they earn a minimum living allowance and, at the end of their term, an education award to help pay for post-secondary education or repay student loans. Currently, about 25,000 Americans participate in AmeriCorps.

The budget proposes $772 million for the Corporation, $87 million more than in 1995, to expand programs begun in 1994 and continued in 1995 and 1996. The $772 million would finance 30,000 participants in 1997, bringing to 100,000 the total number of Americans who have participated in AmeriCorps since the program began in 1994.

The budget also proposes $53 million for the Learn and Serve program, providing almost 900,000 opportunities for school-age youth to serve their communities. It proposes $145 million for the National Senior Service Corps (NSSC)—which includes the Retired Senior Volunteer Program, Foster Grandparent Program, and Senior Companion Program—to engage nearly 480,000 older Americans in service. Under the NSSC, mature,

experienced, skilled people serve the ill, the frail, the isolated elderly, and young people with emotional, mental, or physical disabilities. The budget also proposes $6 million for The Points of Light Foundation. All told, the Corporation would provide opportunities for over a million Americans to engage in service.

AmeriCorps strengthens America's communities in several ways. National, State, and local organizations operate AmeriCorps programs, designing them individually to meet specific needs. AmeriCorps members do not displace existing volunteers or employees; they participate alongside the men and women already working to solve problems at the community level. They provide a regular source of service that most volunteers, given their time constraints, cannot offer.

The Corporation operates few AmeriCorps programs itself; its primary work is ensuring quality in AmeriCorps programs that are locally developed and implemented. The Corporation works with States to run competitions that determine what programs will participate in AmeriCorps. Because States best know their own needs, they enjoy considerable autonomy in determining priorities, selecting programs, and offering additional assistance. AmeriCorps is not a mandate for any State or organization, although 49 States sought AmeriCorps funds last year.

In addition, AmeriCorps seeks to encourage strong partnerships with the private and non-profit sectors. AmeriCorps grantees must raise matching funds from outside the Corporation, and many AmeriCorps programs are underwritten by businesses, including American Express, Fannie Mae, General Electric, IBM, and Timberland.

Following intense competition last year, bipartisan, gubernatorially-appointed State commissions and the Corporation chose 450 organizations to participate in AmeriCorps, including the American Red Cross, the National Coalition of Homeless Veterans, the YMCA, and local United Ways across the country. Wherever they serve, AmeriCorps members are meeting vital needs and getting solid results:

- In Kansas City, they helped close 44 crack houses and drove out drug dealers from a 173-block community—and brought in over 3,000 volunteers to keep the area safe and clean;
- In Simpson County, Kentucky, they raised the reading levels of nearly half of the county's second grade students; and
- In Miami, they recruited and worked with over 5,000 volunteers to build 44 new homes for working families.

Many AmeriCorps members act as "volunteer generators" who recruit and supervise other citizens in direct service. The Corporation's motto—"getting things done"—expresses AmeriCorps' commitment to achieving direct and demonstrable results.

With a strong commitment to community-based direction, the Corporation maintains a small Washington staff. The law limits administrative costs included in grants to AmeriCorps programs to five percent of grant amounts.

Empowerment Zones and Enterprise Communities

As part of his 1993 economic program, the President proposed, and Congress enacted, the Empowerment Zones and Enterprise Communities program. Under it, communities develop a strategic plan to help spur economic development and expand opportunities for their residents, in exchange for Federal tax benefits, social service grants, and better program coordination.

Empowerment Zones (EZs) and Enterprise Communities (ECs) are parts of urban or rural areas with high unemployment and high poverty rates. For EZs, the Federal Government provides tax benefits for businesses that set up shop, and grants to community groups for job training, day care, and other purposes. For ECs, the Government provides grants to community groups for the same array of purposes. EZs and ECs both can apply for waivers from Federal regulations, enabling them to better address their local needs.

The 1994 competition for the first round of EZ and EC designations generated over

500 applications as well as new partnerships for community revitalization. The 105 selected communities made well over $8 billion in private-public commitments, apart from the promised Federal resources. Even in communities that applied but were not designated as EZs or ECs, local efforts to marshal resources and forge broad coalitions to support an innovative economic empowerment strategy produced tangible benefits.

But many other communities lack the seed capital to implement their strategies and sustain private commitments. Thus, the President now proposes a second round of EZs/ECs to stimulate further private investment and economic opportunity in distressed urban and rural communities and to connect residents to available local jobs. The program would again challenge communities to develop their own comprehensive, strategic plans for revitalization, with input from residents and a wide array of community partners. The Administration would invest in communities that develop the most innovative plans and secure significant local commitments.

The second round would build on the President's "brownfields" tax incentive (described in Chapter 9), which would encourage businesses to clean up abandoned, contaminated industrial properties in distressed communities. Also, this round would offer a competitive application process that would stimulate the public-private partnerships needed for large-scale job creation, business opportunities, and job connections for families in distressed communities. The Administration would seek up to 105 new designations, with communities receiving a combination of tax incentives, direct grants, and priority consideration for waivers of Federal program requirements from the President's Community Empowerment Board, chaired by Vice President Gore.

The proposed budget for the second round includes $2 billion for tax incentives, including incentives for brownfields clean-up and small business investment, and $1 billion for direct grants and loans over three years. Each EZ or EC would have to identify performance benchmarks to show what it plans to accomplish in each year of the 10-year designation.

Community Development Financial Institutions (CDFIs)

Proposed by the President in 1993 and created a year later, the CDFI Fund is designed to expand the availability of credit, investment capital, financial services, and other development services in distressed urban and rural communities. By stimulating the creation and expansion of a diverse set of CDFIs, the Fund will help develop new private markets, create healthy local economies, promote entrepreneurship, restore neighborhoods, generate tax revenues, and empower residents.

CDFIs provide a wide range of financial products and services—e.g., mortgage financing to first-time home buyers, commercial loans and investments to start or expand small businesses, loans to rehabilitate rental housing, and basic financial services. CDFIs also cover a broad range of institutions—e.g., community development banks, community development credit unions, community development loan funds, community development venture capital funds, and microenterprise loan funds. These institutions, not the CDFI Fund, decide which individual projects to finance.

The budget proposes $125 million for the CDFI Fund, with gradual increases each year to bring the six-year total to $1.6 billion. Private sector interest in the program has already dramatically exceeded expectations. To date, the CDFI Fund has received requests for assistance from new and existing CDFIs of over $300 million, about 10 times the amount available for the first round.

These applications, however, barely scratch the surface of long-run potential. The Fund also plans to implement an aggressive, long-term program of training, technical assistance, and capacity building, which would help the CDFI field grow substantially over time while maintaining high-quality standards and market discipline. In addition, the Fund will inaugurate an annual Presidential Microenterprise Awards program and coordinate a new Federal Microenterprise Initiative.

Additional resources would enable the Fund to implement a new initiative to support private institutions that provide secondary

markets for CDFIs, leveraging public resources with private capital. The added money also would substantially enhance the CDFIs' capacity to take advantage of coordinated, multi-faceted community development efforts, such as EZs and ECs. Finally, this initiative would increase the resources to provide incentives, through the Bank Enterprise Award program, for traditional banks to expand their community development lending and support local CDFIs.

Federal Relationship With Communities

The EZ/EC initiative and CDFI program are just two examples of the Administration's efforts to help communities develop their own strategies to face their toughest economic and social challenges.

To implement this new relationship with communities, the budget builds on the President's reinvention proposal of last year by restructuring the major programs of the Department of Housing and Urban Development (HUD). The Administration would consolidate HUD programs into three flexible, performance-based funds. It would award most of the funding by formula, as in a block grant, but focus it on clearly-stated national goals. And it would judge communities' use of funds against measures that are consistent with national goals but tailored to each community's situation.

Like the EZ/EC initiative, this structure provides flexibility but demands accountability. To further reward results, communities would be eligible for bonus funding. Funds would go to communities that set and achieve ambitious performance goals, consistent with national program objectives and local needs.

HUD Secretary Henry Cisneros proposes to transform HUD by creating single points of contact for all major localities and giving HUD staff the expertise to help communities reach their goals. In this transformation, HUD would move much of its staff out of Washington and into the communities to operate as problem-solvers, working with, and for, the States and communities. Mayors and other local leaders would no longer have to work with three or four HUD offices to get answers on community priorities. Instead, community contacts would troubleshoot, respond to community complaints, and help communities identify and overcome Federal impediments to achieving local priorities.

The budget also builds on the President's reinvention proposal of last year by supporting efforts to demolish 54,000 of the worst public housing units in the next three years and, in their place, provide portable rental subsidy certificates that give residents greater mobility. In limited cases where appropriate, communities would construct new, less dense units.

Through the Campus of Learners program, HUD also is working to transform selected public housing developments into avenues of educational achievement and job advancement. On these campuses, public housing agencies link up with local schools, universities, and training centers—many of them located near the housing developments. The program would require residents to participate in education and job training programs, and would limit the period of residency. Upon completing campus programs, residents would receive help in moving into private housing and securing employment.

Government-to-Government Commitment to Native Americans

The President continues to listen to the views and concerns of Native Americans, and proposes to address basic needs and restore high-priority Native American programs to pre-1996 levels.

The Administration has fought to restore critical 1996 funding to enable the Federal Government to fulfill its trust responsibility to Tribes. The budget proposes a 10 percent increase for Government-wide programs, compared to 1996.

Budgets for the Interior Department's Bureau of Indian Affairs (BIA) and the Health and Human Services Department's Indian Health Service (IHS) comprise about two-thirds of Federal funding for Native American programs.

- **BIA:** The budget proposes $1.8 billion, an increase of $136 million over 1996. The BIA budget focuses on supporting the growing school population on or near Indian reservations, increasing Tribal self-

determination, and protecting Indian trust resources.

- **IHS:** The budget proposes $2.4 billion, an increase of $186 million over 1996. The IHS budget emphasizes support for clinical services, often the only source of medical care on isolated reservations. It also supports water and sewer line construction—such basic utilities are still lacking on too many reservations.

The BIA and IHS will continue to promote self-determination by allowing Tribes to direct and administer more resources for Tribal priorities at the reservation level. In addition, both agencies have worked extensively with Tribes to develop regulations to implement recent amendments to the Self-Determination Act.

The Interior Department continues to encourage an increase in the number of Self-Governance Tribes. Self-Governance compacts, which give Tribes greater flexibility to administer Federal programs on reservations, now number 54 and will rise to a projected 74 in 1997.

Finally, the budget proposes $36 million for a new Office of the Special Trustee for American Indians to oversee trust fund management reform, and Interior Secretary Bruce Babbitt has directed all Interior Department offices and bureaus to redouble their efforts to protect trust resources.

Beyond funding issues, the Administration continues to emphasize the spirit of consultation and recognition of the unique status of Native Americans. In the past year, the Administration invited Tribal leaders to two national meetings—one marking the first anniversary of President Clinton's historic April 1994 meeting with Tribes, the other focusing on economic development.

Table 5–1. GOVERNMENT-WIDE NATIVE AMERICAN PROGRAM FUNDING

(Budget authority, in millions of dollars)

	1993 Actual	1995 Actual	1996 Estimate [1]	1997 Proposed	Change: 1996 to 1997	Change: 1993 to 1997
BIA	1,647	1,733	1,646	1,782	+136	+135
IHS [2]	2,022	2,173	2,214	2,400	+186	+378
Subtotal, BIA/IHS	3,669	3,906	3,860	4,182	+322	+513
All other	1,828	1,992	1,865	2,098	+233	+270
Total	5,497	5,898	5,726	6,280	+554	+783

[1] Includes Administration's proposed adjustments to 1996 continuing resolution levels.

[2] IHS program level includes both budget authority and Medicaid, Medicare, and private insurance collections.

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6. STRENGTHENING HEALTH CARE

We still have a lot of work to do. But the answer to the problems of the great American middle class, the answer to the problem of curing the American deficit, the answer to the problem of dealing with the challenge of educating a new generation of Americans for a new, highly competitive economy—surely the answer to those problems is not to break down the one thing we have done right completely, which is to keep faith with our elderly people.

President Clinton
July 1995

In a recent report in the *New England Journal of Medicine,* two demographers wrote that Americans who reach the age of 80 have a longer life expectancy than their counterparts in Japan, England, France, and Sweden. One reason, they wrote, is that older Americans receive better health care than the elderly in other countries.[1]

With this in mind, our challenge is to build on the existing health care system—to protect its strengths and address its weaknesses—as the President has tried to do for the last three years. It is not to do as others would—that is, to tear it down.

The President has consistently worked to balance two competing demands in health care: (1) improving access to coverage, and (2) making the system more efficient. Thus, he has sought to create an environment in the public and private health systems where plans compete based on quality and cost-effectiveness, not on which can choose the healthiest and cheapest populations to insure. The budget includes health care provisions that reflect this commitment.

Many innovations in health care have helped to contain costs in the private sector. The best of them make our delivery system more efficient, and improve quality by increasing consumer choice, stressing accountability, and focusing on medical outcomes. The President proposes to introduce these kinds of improvements into Medicare. For its 37 million beneficiaries, they would create more plans to choose from, higher quality care, and a more cost-effective program.

For Medicaid, the President's plan proposes to give States unprecedented flexibility to better manage their programs. They no longer would have to receive Federal permission to use managed care for their Medicaid populations, to expand into more desirable home- and community-based service programs for the chronically ill, or to expand coverage.

The plan would let States better negotiate contracts with health providers. And the President's per-person limit on Medicaid spending would ensure that federal dollars follow the recipients—an approach that would limit the growth in Medicaid spending while protecting States that face high population growth or economic downturns. These and other provisions would maintain and strengthen Medicaid's guarantee of meaningful coverage for 36 million vulnerable Americans.

In addition, the budget proposes $26.9 billion, a $1.2 billion increase over 1996, for a wide range of public health services as well as research and regulatory activities that promote public health.

- The services range from community health centers in inner cities, to clinics on remote Indian reservations, to research activities at prestigious universities and medical schools. Public health clinics provide immunizations for uninsured children, dental care for the underinsured, and prenatal

[1] Manton, Kenneth G., and Vaupel, James W., "Survival After the Age of 80 in the United States, Sweden, France, England, and Japan," *New England Journal of Medicine,* November 2, 1995, pp. 1232–1235.

care for millions of low- and moderate-income women. Other public health services that help those in need include the Ryan White program, which gives States and cities the resources to deliver vital services to people with AIDS.

- The research and regulatory activities include biomedical and behavioral research at the National Institutes of Health (NIH), worker safety and health research at the National Institute for Occupational Safety and Health, and food and pharmaceutical safety regulation and enforcement at the Food and Drug Administration.

STRENGTHENING MEDICARE

The budget strengthens and improves Medicare, extending the solvency of the Part A Hospital Insurance trust fund through the next decade. It gives seniors and people with disabilities more choices among private health plans, makes Medicare more efficient and responsive to beneficiary needs, attacks fraud and abuse through programs praised by law enforcement officials, slows the growth rate of provider payments, and holds the Part B Supplementary Medical Insurance premium at 25 percent of program costs.

The plan saves $124 billion over seven years, as estimated by the Health Care Financing Administration's Office of the Actuary. The Administration is proposing policies that save $124 billion in Medicare using either the Administration's or CBO's "baseline" (i.e., projection of Medicare spending). The Administration will work with Congress to ensure that any plan that the President proposes will save $124 billion as estimated by CBO.[2]

Provider Payment Reforms and Program Savings

- *Hospitals.*—The budget reduces the annual inflation increase, or "update," for hospitals; reduces payments for hospital capital; reforms payments for graduate medical education; and begins to reform the payment method for outpatient departments while protecting beneficiaries from increasing charges for those services.

- *Managed Care.*—The budget reforms payments by using reasonable rate-of-growth limits on updates for managed care payments and reducing the current geographic variation in payments.

- *Physicians.*—The budget reforms physician payments by paying a single update for all physicians[3] and replaces current "volume performance standards" with a sustainable growth rate.

- *Home Health Care/Skilled Nursing Facilities.*—The budget implements interim payment reforms, leading to separate prospective payment systems for home health care and skilled nursing facilities.

- *Fraud and Abuse.*—The budget introduces aggressive and comprehensive policies to stamp out Medicare waste, fraud, and abuse, and extends and enhances Medicare's secondary payor policy to ensure that Medicare pays only when it should.

- *Other Providers.*—The budget freezes or reduces payments for durable medical equipment and ambulatory surgical centers.

- *Beneficiaries.*—The budget continues, but does not increase, the requirement that beneficiaries pay 25 percent of Part B costs through the monthly Part B premium; it imposes no new cost increases on beneficiaries.

Provisions to Improve Rural Health Care

The budget enhances access to, and the quality of, health care in rural areas. It extends the Rural Referral Center program; allows direct Medicare reimbursement for nurse practitioners, clinical nurse specialists, and physician assistants; improves the Sole Community Hospital program; expands the Rural Primary Care Hospital program; and

[2] The Administration expects that, for technical reasons—e.g., different assumptions about how fast Medicare spending will grow, and how providers and beneficiaries will behave—the Congressional Budget Office (CBO) will estimate that the Administration's plan saves slightly less. In that event, the Administration has identified a way to close the gap—specifically, by changing the legal formula for paying hospital outpatient departments to better reflect actual costs.

[3] The hospital update will be based on a single "conversion factor," or base payment amount, replacing the current three conversion factors, effective January 1, 1997.

provides grants to promote telemedicine and rural health outreach.

Provisions to Expand Choices and Add Preventive Benefits

The budget expands and improves Medicare managed care by:

- ensuring beneficiary protections while increasing the types of plans—including Preferred Provider Organizations and Provider Sponsored Networks—available to seniors and people with disabilities; and
- instituting a coordinated annual open enrollment process—similar to that used by the Federal Employees Health Benefits Plan—during which beneficiaries use comparative information to choose among managed care and supplemental insurance options.

In addition, the budget expands coverage of preventive benefits to include annual mammograms and the elimination of mammography coinsurance, colorectal cancer screening, flu shots, and diabetes screening and education. Finally, the budget introduces a respite care benefit, providing relief to families caring for relatives with Alzheimer's disease.

STRENGTHENING MEDICAID

The budget reforms Medicaid to give States much more flexibility to manage their programs, while preserving the guarantee of meaningful health coverage for the most vulnerable Americans. Millions of children, people with disabilities, and the elderly would retain the guarantee of basic health and long-term care services.

The budget saves $59 billion over seven years by imposing a per-person limit on spending, and cutting Disproportionate Share Hospital payments and retargeting them to hospitals that serve large numbers of Medicaid and uninsured patients. As with Medicare, the Administration expects CBO to make somewhat different estimates about how much the budget would save in Medicaid. In this case, too, the Administration will work with Congress to ensure that any plan that the President proposes saves $59 billion under CBO estimates.

The plan provides special payments to States for their transition into the new system and for meeting their most pressing needs. It gives States unprecedented flexibility to administer their programs more efficiently. Finally, it retains current nursing home quality standards and continues to protect the spouses of nursing home residents from impoverishment.

Program Savings

- *Per-person cap.*—A per-person cap on Medicaid growth would limit spending to a reasonable level, while retaining current eligibility and benefit guidelines. This approach guarantees that the elderly, people with disabilities, pregnant women, and children who depend on Medicaid would remain eligible for health benefits, while it slows increases in spending to levels that States and the Federal Government can support. In contrast to a block grant, the Administration's plan protects States facing population growth or economic downturns.
- *Disproportionate Share Hospital Payments (DSH).*—The budget gradually reduces DSH payments and retargets them to hospitals that serve a large proportion of Medicaid and uninsured patients, including children's and public hospitals. It provides special payments for Federally Qualified Health Centers, Rural Health Clinics, States with large numbers of undocumented immigrants, and States moving into the new system.

Provisions to Increase State Flexibility

The budget includes a number of policies to give States more flexibility in managing their Medicaid programs, such as:

- *Boren amendment.*—The plan repeals the "Boren amendment" for hospitals and nursing homes, allowing States more flexibility to negotiate provider payment rates.
- *Managed care.*—The plan allows States to adopt managed care without Federal waivers.
- *Home- and community-based care.*—The plan allows States to move populations who need long-term care from nursing

homes to home- and community-based settings without Federal waivers.

- *Coverage expansions without waivers.*— The plan enables States, without waivers, to expand coverage to any person whose income is under 150 percent of the poverty line. States would pursue these expansions within their per-person limits, thereby limiting Federal costs.

Protections for the Most Vulnerable

The budget retains the policy of helping low-income seniors and people with disabilities by preserving the shared Federal-State responsibility for their Medicare premiums, copayments, and deductibles. It also retains payment protections for Medicaid-eligible Native Americans treated in Indian Health Service and other facilities. These protections are not subject to the per-person cap.

MAINTAINING AND EXPANDING COVERAGE FOR WORKING AMERICANS

Reforms to Make Health Coverage More Accessible and Affordable

In his State of the Union address, the President challenged Congress to enact insurance reforms to enable more Americans to maintain health insurance coverage when they change jobs, and stop insurance companies from denying coverage for pre-existing conditions. The budget proposes that plans make coverage available to all groups of businesses, regardless of the health status of any group members. Insurers would have to provide an open enrollment period of at least 30 days for all new employees (whether or not they were previously insured), and insurers could not individually underwrite new enrollees—i.e., their premiums would have to match other enrollees' with similar demographic characteristics.

To increase affordability, the President's insurance reforms phase out the use of claims experience, duration of coverage, and health status in determining rates for small businesses. To put the self-employed on a more equal footing with other businesses, the reforms gradually raise the self-employed tax deduction for health insurance premiums from 30 to 50 percent. And to help give small businesses the purchasing clout that larger businesses have, the budget proposes $25 million a year in grants that States can use for technical assistance and for setting up voluntary purchasing cooperatives.

Health Insurance for the Temporarily Unemployed

The budget gives premium subsidies to individuals who lose their health insurance when they lose their jobs, to pay for private insurance coverage for up to six months. States would receive funding to design and administer the program, which would provide coverage for about 3.8 million Americans a year. During the four-year period for which this program is authorized, a Commission would study and provide recommendations to the Administration and Congress as to making it permanent.

PROMOTING PUBLIC HEALTH

The budget continues our Nation's critical investment in basic biomedical research, an investment that plants the seeds for lifesaving advances in medicine. The budget proposes $12.4 billion for NIH, a $467 million increase over 1996 and a 20 percent increase since 1993. Further, the budget advances our efforts to eradicate, once and for all, the dreaded disease of polio. And it supports childhood immunizations, which have proven their cost-effectiveness time and again.

The budget continues the President's strong commitment to HIV/AIDS prevention and treatment. It increases funds to prevent HIV transmission by $34 million over 1996 levels. It increases Ryan White funding by $32 million over 1996 to ensure that our most hard-hit cities, States, and local clinics can assist those with AIDS. It increases funding for potentially life-prolonging therapies, including some of the newly-discovered drugs that show so much promise in treating AIDS. It increases support for drug treatment— one of the most effective forms of HIV prevention. And it increases AIDS research funding at NIH in the continuing search for effective treatments, vaccines, and a cure.

The budget also gives substance abuse treatment and prevention a 17 percent increase, helping expand efforts against drugs.

And it increases support for the Indian Health Service (IHS) by eight percent—keeping our Nation's commitment to Native Americans and continuing efforts to promote Tribal administration of IHS programs.

Biomedical and Behavioral Research: The budget continues the Administration's long-standing commitment to biomedical and behavioral research, which advances the health and well-being of all Americans. The $12.4 billion proposal for the NIH invests in research directed to areas of high need and promise, as well as in basic biomedical research that would lay the foundation for future innovations that improve health and prevent disease. The budget includes increases for HIV/AIDS-related research, breast cancer research, high performance computing, prevention research, gene therapy, and developmental and reproductive biology. The Office of AIDS Research will continue to coordinate all of NIH's AIDS research. The budget also includes funding for a new NIH Clinical Research Center, which would give NIH a state-of-the-art research facility in which researchers would bring the latest discoveries directly to patients' bedsides. NIH's highest priority continues to be financing investigator-initiated research project grants.

Ryan White HIV/AIDS Treatment Grants: The budget proposes $807 million for activities authorized under the Ryan White CARE Act, an increase of $32 million over 1996. This level would fund grants to cities disproportionately affected by the HIV epidemic; to States to provide medical and support services; to community-based organizations to provide HIV early intervention services; and to support pediatric AIDS demonstration activities. In addition, the Administration has sought more funds for State AIDS drug assistance programs funded under Title II of the Ryan White program—to finance newly-discovered life-prolonging AIDS therapies, some of which are beginning to receive Food and Drug Administration approval. Under this Administration, funding for Ryan White grants has risen by 89 percent. The budget for 1997 would increase Ryan White funding by 132 percent since 1993.

HIV Prevention: The budget proposes $618 million for Centers for Disease Control and Prevention (CDC) HIV prevention activities, a $34 million increase over 1996. At the historic White House Conference on HIV and AIDS, the President made his commitment to HIV prevention clear: "We have to reduce the number of new infections each and every year until there are no more new infections." A portion of these funds would address the linkages between substance abuse and HIV infection.

Indian Health Service: The budget proposes $2.4 billion for the IHS, a $186 million increase. IHS clinical services—often the only source of medical care on isolated reservation lands—grow by $138 million, maintaining our commitment to Native Americans. The budget allows the Tribes to continue taking greater responsibility for managing their own hospitals and clinics; it increases the "contract support costs" that help underwrite Tribal activities by 31 percent, to $201 million. In addition, the budget proposes a major new initiative to bring water and sewer lines to those Native Americans still without adequate access to these basic necessities. This initiative would ensure that about 4,000 more Native American homes receive water and sewer lines—a step which has been critical to improving public health.

Substance Abuse Treatment and Prevention: The budget increases support for State substance abuse treatment and prevention activities by $67 million, to $1.3 billion. The budget reiterates support for Performance Partnerships, which would give States more flexibility to better design and coordinate their substance abuse prevention and treatment programs, and better target resources to local priority areas. In addition, it increases funds for substance abuse demonstration and training activities by $140 million, to $352 million. The budget establishes a $20 million Substance Abuse Managed Care Initiative that, with the rapid growth of managed care, would help to establish service guidelines and design quality assurance, monitoring, and evaluation systems. This strong support for substance abuse activities would enable hundreds of thousands of pregnant women, high risk youth, and other under-served Americans to receive drug treatment and prevention services.

Special Supplemental Nutrition Program for Women, Infants, and Children (WIC): WIC reaches over seven million women, infants, and children a year, providing nutrition assistance, nutrition education and counseling, and health and immunization referrals. As a result of funding increases under President Clinton, WIC participation has grown by nearly 25 percent in the past three years. The budget proposes $3.9 billion, to serve 7.5 million individuals by the end of 1997, fulfilling the President's goal of fully funding WIC in four years.

Immunizations: The budget proposes $957 million in spending on immunizations, including the Vaccines for Children program. For many diseases, the Administration is ahead of schedule to meet the goal of immunizing 90 percent of two-year-old children by 1996. The most recent figures show that, from April 1994 to December 1995, 90 percent or more of all two-year-old children were immunized against diphtheria, tetanus, pertussis, and hemophilus influenza type B. Further, rates for immunization against measles, mumps, rubella and polio are approaching the 1996 goals. Nevertheless, the Nation must maintain its efforts in order to lock in these gains and meet the goals for the remaining immunizations.

The budget also includes a major $47 million initiative in the Department of Health and Human Services (HHS) to eradicate polio—preventable through immunizations—throughout the world. (This HHS funding comes in addition to polio-eradication efforts that the Agency for International Development supports.) Polio is already gone from the Western Hemisphere. This shows that, like smallpox, polio can be wiped from the face of the earth, sparing all children from this crippling disease and saving the United States the hundreds of millions of dollars we now spend to immunize against it.

Infectious Disease: The budget proposes $88 million for CDC's cooperative efforts with States to address infectious disease, an increase of $25 million. It would support training and applied research, and States' disease surveillance capability. All Americans face threats from the onset of infectious disease problems, such as drug resistant bacteria, and emerging viruses, such as the hantavirus. CDC works with State health departments to monitor and prevent such problems and to contain outbreaks.

7. MAKING WORK PAY

> *I think the objective of welfare reform should be to break the cycle of dependency in a way that promotes responsibility, work, and parenthood. I believe that our objective for all Americans should be to make sure that every family can succeed at home and at work, not to make people choose.*
>
> President Clinton
> February 1996

America's welfare system is broken. It does not serve the taxpayers or those trapped in it. And it undermines the values of work and family. We must replace it. At the same time, Congress' failure to raise the minimum wage has hurt millions of hardworking families.

For three years, the Administration has worked aggressively to fix specific parts of the welfare system, while pursuing comprehensive reform. In 1993, the President's economic program gave tax cuts to 15 million working families through the Earned Income Tax Credit, which rewards work over welfare. In 1994, the Federal Government collected a record $10 billion in child support (see Chart 7–1). A year later, the President signed an Executive Order to make the Federal Government a model employer for collecting child support. In July 1995, the President ordered that Federal regulations be strengthened to prevent welfare recipients who refuse to work from getting higher Food Stamp benefits when their welfare checks are cut.

The Administration's actions—combined with the falling unemployment rates that a strong economy has generated—are having an impact. Since their peak in March 1994, welfare caseloads have fallen from 14.4 million to 12.9 million, or 10 percent (see Chart 7–2).

The Administration has given 37 States the freedom to test ways to move people from welfare to work and protect children. The President's welfare plan also would dramatically increase State options to structure the system, but retain basic standards for helping the poor to live and become self-sufficient.

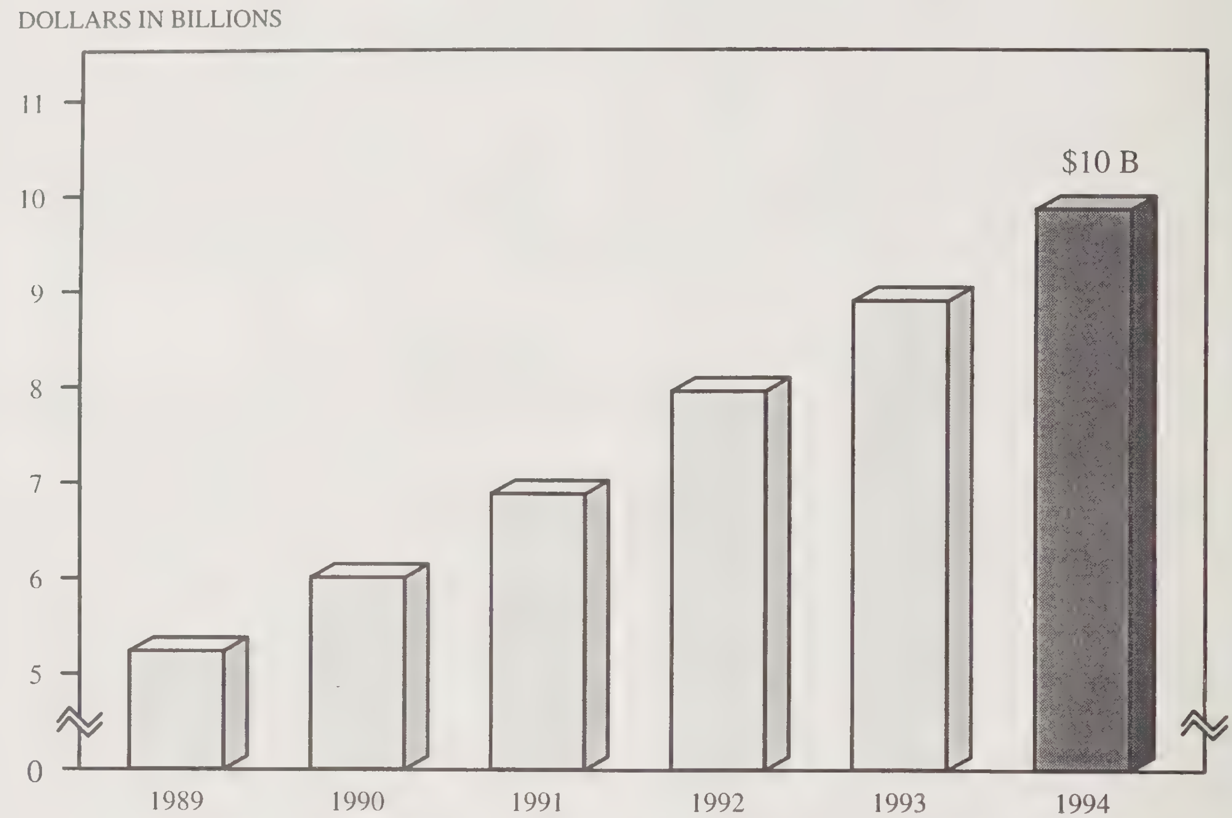
Through State welfare experiments, 9.9 million recipients across the Nation are in households in which adults are being required to work, take more responsibility for their children, sign a personal responsibility contract, or earn a paycheck from a business that uses money otherwise spent on Food Stamps and welfare benefits to subsidize private sector jobs. These States are doing their part to promote real reform that reflects the basic values that Americans share: work, responsibility, and family.

Now, however, Congress needs to do its part and work with the Administration on bipartisan legislation that honors those same values by requiring work, demanding responsibility, protecting children, and providing adequate resources to get the job done right.

In 1994, the President sent Congress a dramatic welfare reform plan to: time-limit welfare benefits; establish tough work requirements and provide child care for welfare recipients; impose tough child support enforcement measures on non-custodial parents; increase State flexibility to run public assistance programs; and protect children. That proposal triggered many others—in Congress and from the Nation's governors.

The President is determined to keep working with Congress to enact a bipartisan welfare reform bill. In this budget, the President proposes a revised plan to replace the current welfare system with one that requires work and provides child care so people can leave

Chart 7-1. THE ADMINISTRATION'S CHILD SUPPORT COLLECTIONS CONTINUE TO GROW



Source: Department of Health and Human Services, Office of Child Support Enforcement, 19th Annual Report to Congress.

welfare for work. This new plan saves about $40 billion over seven years while promoting sweeping work-based reform and protecting children.

WELFARE REFORM

To succeed, welfare reform must focus on moving those who can work to independence through: tough work requirements; child care; incentives to reward States for placing people in jobs; a continued financial commitment by States to reform; a flexible program structure that can respond quickly to fluctuations in welfare caseloads and adapt to local needs; a strong national nutritional safety net; and protection for children even if their parents lose assistance.

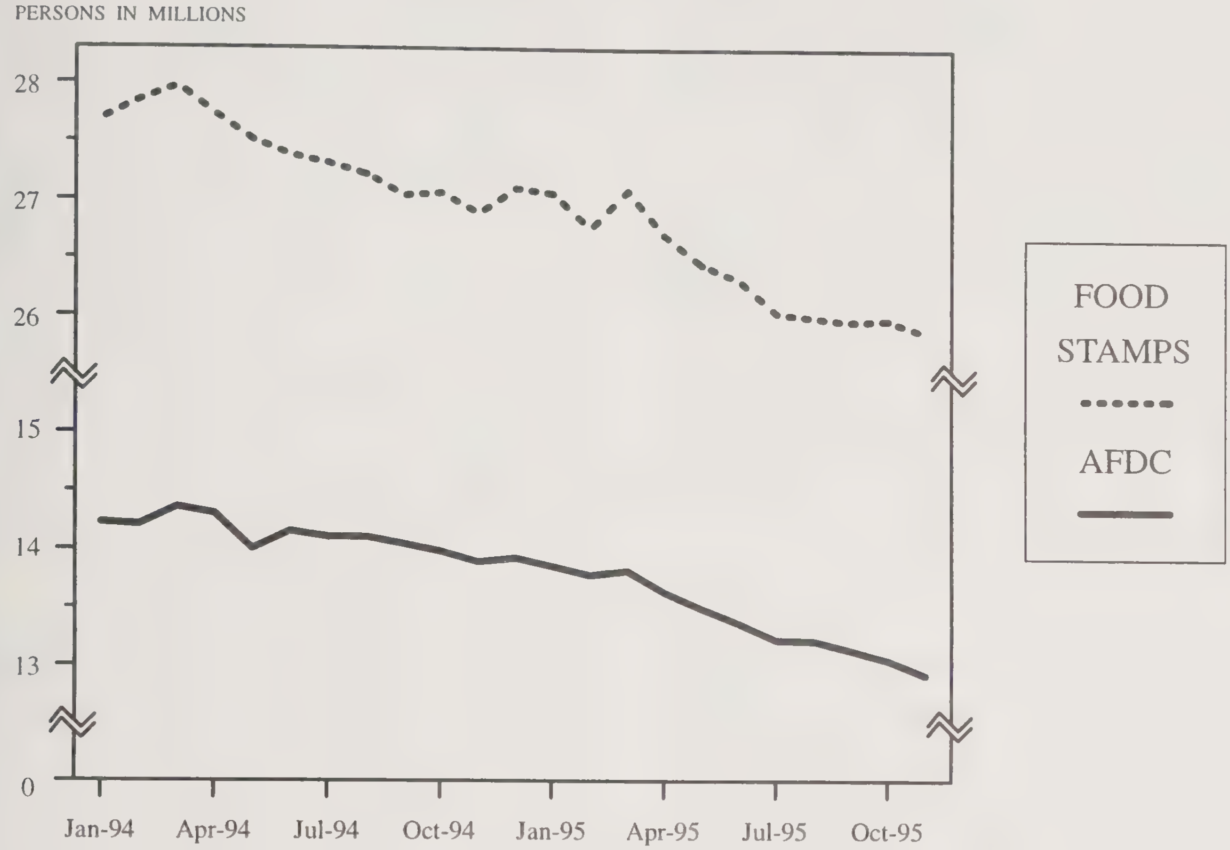
Moving People from Welfare to Work

Welfare reform is mainly about work. The President's plan would repeal Aid to Families with Dependent Children (AFDC) and create a new, time-limited, conditional entitlement to cash assistance. As soon as they join the rolls, beneficiaries would have to develop and sign a personal responsibility contract with their welfare office. Within two years, able-bodied parents would have to work or lose their benefits—and after five years, they no longer would get cash benefits.

Providing Child Care to Reward Work Over Welfare: Child care is vital to moving people off welfare and helping them stay off. Many people stay on welfare because when they work, the cost of child care leaves them worse off. The budget proposes significantly more funding for child care to help low-income parents get the skills to hold a job or look for one. Child care funds also would help parents avoid welfare in the first place.

Ensuring Protection During Economic Downturns: In a recession, State revenues fall as welfare caseloads rise because more jobless families seek public assistance. Without

Chart 7-2. FOOD STAMP AND AFDC CASELOADS ARE SHRINKING STEADILY



a funding structure that can adjust to caseload changes, a recession could render many States unable to keep paying welfare benefits and still meet the tough work requirements of any real reform. The President believes strongly in maintaining a flexible funding structure that adjusts to changing economic circumstances.

Keeping a Stake in Successful Reform: States must maintain their commitment to move people from welfare to work. Without it, some States may withdraw their support for programs that move people to work and drastically cut benefits in a "race to the bottom." States should be held accountable for making welfare reform a success. The President's proposal requires a sustained State financial contribution. The proposal also recognizes that State welfare bureaucracies need a positive incentive to focus on the central goal of moving people from welfare to work. Thus, the President proposes $800 million in performance bonuses to reward States that achieve the best results in moving people from welfare to work.

Requiring Parental Responsibility

To end welfare as we know it, we must encourage responsible behavior. The President's proposal sends a strong message to the next generation that they should not have children until they can care for them.

Strengthening Child Support Enforcement: In his 1994 welfare plan, the President proposed sweeping changes to strengthen child support enforcement. These included: revoking driver and professional licenses for parents who refuse to pay child support; improving interstate laws to find such parents; and strengthening the tools to establish paternity so that both parents take full responsibility for their children.

Reducing Teen Pregnancy and Stabilizing Families: In his State of the Union address, the President launched a national cam-

paign to cut teen pregnancy by a third over the next 10 years. The budget proposes $30 million to address the problem and support grass-roots community efforts. A National Clearinghouse on Adolescent Pregnancy would provide information, data, and technical assistance to teen pregnancy prevention programs, including education about abstinence.

Teens who become parents often need support and guidance, especially to meet their children's emotional and material needs. Under the President's proposal, minor parents would have to live in an adult-supervised environment as a condition of receiving temporary employment assistance. To help them become self-sufficient, minor parents also would have to participate in education or job training activities.

Protecting Children

Welfare reform should not punish children.

Maintaining our National Commitment to Abused and Neglected Children: In 1993, the Administration secured legislation to provide close to $1 billion for the new Family Preservation and Support program. The law recognized that child abuse and neglect are serious, growing problems. Recently, reported child maltreatment and the need for out-of-home placements have both risen sharply—about 2,000 children die each year due to abuse and neglect.

Some congressional welfare bills would cut child protection programs, leading to more uninvestigated reports of mistreatment, more children left in unsafe homes, and more children languishing while they await adoption and permanent homes. Congress should reject such cuts and, instead, maintain a flexible system that can respond over time to changes in children's need for protection.

Maintaining our National Nutrition Safety Net: Every day, the national nutrition safety net protects millions of children, working families, and elderly. The Food Stamp program reaches one in 10 Americans every month—over 13 million children and two million elderly people. About 26 million children receive lunches supported by the Agriculture Department each school day. Another 2.5 million children a day participate in the child and adult care feeding program.

Throughout their history, Food Stamps and Child Nutrition have produced significant, measurable improvements in the nutrition of children and families. The programs work because of: national standards on nutrition, eligibility, and benefits; funding structures that ensure that the programs respond to changing needs caused by economic fluctuation; and Federal oversight that helps ensure their integrity. The Food Stamp program helps to ensure that low-income families and individuals have access to the resources they need to maintain an adequate diet. The President's plan maintains the national nutrition safety net for Food Stamps and Child Nutrition, enabling them to respond to the changing and disparate circumstances of families and children.

Under the President's plan, the Food Stamp program continues to index basic benefits with inflation; counts all energy assistance as income; and imposes a new work requirement that makes adults aged 18–50 with no dependents ineligible for Food Stamps after six months of each year unless they work 20 hours a week or participate in workfare or training (eligibility continues if a State does not supply a training or workfare slot). Tough new integrity measures crack down on fraudulent Food Stamp trafficking and waste. In addition, the plan gives States unprecedented flexibility to run the Food Stamp program. It better targets food subsidies for Family Day Care homes and makes other minor changes in Child Nutrition programs.

Protecting Children Whose Parents Reach the Time Limit: As we have said, welfare reform should not punish children. Even after a family's cash benefits end, the President's plan calls for vouchers for goods and services so that children continue to receive essential items, such as clothing and housing.

Protecting Health Coverage for Poor Families: Health care is an important part of the strategy to move poor people from welfare to work. The President proposes to retain the Federal guarantee of coverage under Medicaid—which provides health care to low-income Americans—for those who receive cash

assistance. In addition, his plan does not restrict Medicaid for documented immigrants.

Reforming Supplemental Security Income (SSI)

The SSI program provides critical financial support for the neediest aged, blind, and people with disabilities. The budget supports key reforms to ensure that SSI continues to reach those most in need.

The budget tightens eligibility standards for childhood disability benefits. It would deny benefits to adults who are on SSI due to substance abuse. It proposes improved SSI and Social Security Disability program integrity measures, such as continuing disability reviews. It would give the Social Security Administration new tools to collect SSI overpayments from individuals no longer on the SSI rolls. Finally, it proposes to allow a family to use any large, retroactive SSI benefit to establish a dedicated savings account for a child with disabilities, with funds in the account usable only for education and training, special equipment, housing modifications, or therapy and rehabilitation.

Making Equitable Changes in Benefits for Legal Immigrants

The President believes that legal immigrants should have the opportunity, and bear the responsibility, to be productive members of society. He also believes they should be able to tap the social safety net when the need arises.

The budget proposes to hold sponsors who bring immigrants into the country legally responsible for their financial well-being. Specifically, it would count (or "deem") sponsors' income when determining whether immigrants are eligible for SSI, Food Stamps, or AFDC—until immigrants become citizens. These rules, however, would not apply to those who suffer a disabling impairment after entering the country, the very elderly who have lived in the country for at least five years, those who have worked for over five years, or veterans and their families. The budget preserves Medicaid eligibility for low-income, eligible legal immigrants. It also creates a consistent definition of eligibility for documented aliens for AFDC, SSI, and Medicaid, and lets States apply this definition to their own State-funded programs.

THE EARNED INCOME TAX CREDIT (EITC)

To move people from welfare to work, the Government must do more than set time limits and work requirements in welfare programs. It must ensure that those who work can support their children. As a wage supplement, the EITC helps low-income parents do that.

This tax credit has long enjoyed broad, bipartisan support as a vital tool for making work pay. Congress created it 20 years ago, and Presidents of both parties have pushed successfully to expand it. The most recent was President Clinton, who teamed up with Congress in 1993 to reward work for 15 million families.

The budget maintains these gains for hard-working, low-income families. In addition, the President proposes to allow States, on a test basis, to make advance EITC payments to low-income working families—that is, payments during the tax year, rather than a lump sum at the end—to learn whether this would help move more families from welfare to work. Currently, employers can include a portion of a family's expected EITC in an employee's paycheck, but few of them do. The Administration also seeks to cut program costs by improving compliance and targeting. (For more details on the compliance and targeting measures, see Chapter 12.)

THE MINIMUM WAGE

In real, inflation-adjusted dollars, the value of the minimum wage is nearing its lowest level in 40 years. The President proposes to raise the minimum wage from $4.25 to $5.15 an hour over two years, in two steps of 45 cents each.

A higher minimum wage would truly make work pay. A 90-cent rise would mean over $1,800 a year in higher earnings for full-time, full-year workers at the minimum level who now make less than $9,000 a year. With the proposed increase, nearly 10 million working Americans would get an immediate

pay raise. Another nine million low-wage workers with wages up to a dollar above the new minimum also could benefit indirectly, presuming that their paychecks rise as well.

The stereotype of minimum-wage teenagers in comfortable circumstances who work only for "extras" is sadly inaccurate. In truth, minimum-wage paychecks mostly go for expenses like rent and baby food. The average minimum wage worker brings home half of his or her family's earnings.

Nevertheless, about a quarter of workers who would get a pay raise with this increase are teenagers. These teenagers' jobs are their introduction to the world of work. Over three-fifths of all workers have been paid at the minimum wage at some time during their working lives.

Generally, economists agree that while a minimum wage increase of 90 cents an hour would raise the living standards of millions of low-wage workers, it would cost the economy few, if any, jobs.

8. INVESTING IN EDUCATION AND TRAINING

> *We have worked on a simple strategy for education. We believe in high standards. We believe in high expectations. We believe in high levels of opportunity. We believe in high technology. And we believe the doors of college should be open to every single American citizen.*
>
> President Clinton
> February 1996

Today's most successful workers are those with technical skills and a firm educational footing who continue to learn throughout their careers in order to compete successfully in this fast-changing economy.

In recent years, education and wages have become increasingly intertwined. Generally, those with the best skills and education have made steady progress, enjoying higher living standards. Those without the requisite skills and education have fallen behind. Tomorrow's workers face an even greater challenge: As the very nature of work changes with technological innovation, employers will demand even more highly-skilled workers. The best-paying jobs increasingly will go only to those with education and training beyond high school.

For the most part, our Nation places responsibility for education and training on State and local governments, families and individuals, and the private sector. Nevertheless, the Federal Government plays a crucial, if limited, role in providing education for a lifetime—from pre-school to adult career training.

Federal resources help States improve the quality of education and training for the disadvantaged and people with disabilities; support State- and locally-designed elementary and secondary school reform; and help low- and middle-income families gain financial access to postsecondary education and skill training through loans and grants. To help States raise student achievement, the President has consistently worked to make schools safer, improve teacher quality, move technology into the classroom as quickly as possible, raise academic standards, and better prepare students for college and the new workplace.

The budget reaffirms the President's long-standing commitment to education and training. It builds on previous legislative and management reforms, and continues support for policies that the President has articulated since assuming office in 1993.

Over seven years, the budget proposes $311 billion for education and training, $61 billion more than the 1996 congressional budget resolution (see Chart 8–1). For selected programs, the budget proposes an increase of $5.9 billion, or 24 percent, over the 1993 level (see Table 8–1).

The Education Department's programs play a key role in the Nation's efforts to improve the quality of elementary and secondary education for all children, and to help low- and middle-income families pay for postsecondary education and skill training. For 1997, the budget proposes $25.6 billion in discretionary funds for department programs.

Preparing Children for School

Head Start: A healthy, caring family environment is the best preparation for school. For over 30 years, Head Start has helped families create this environment by taking a comprehensive approach to child development—improving children's learning skills, health, nutrition, and social competency. Head Start involves parents in their children's learning,

Table 8–1. THE BUDGET INCREASES SPENDING ON MAJOR EDUCATION AND TRAINING PROGRAMS BY $3.4 BILLION, OR 13 PERCENT, OVER 1995, AND BY $5.9 BILLION, OR 24 PERCENT, SINCE 1993

(Budget authority, dollar amounts in millions)

	1993 Actual	1995 Actual	1996 Estimate [1]	1997 Proposed	Dollar Change: 1995 to 1997	Percent Change: 1995 to 1997	Dollar Change: 1993 to 1997	Percent Change: 1993 to 1997
Head Start	2,776	3,534	3,631	3,981	+447	+13%	+1,205	+43%
Goals 2000	....	372	486	491	+119	+32%	+491	NA
Charter Schools	....	6	20	40	+34	+567%	+40	NA
Title I—Ed for disadvantaged	6,709	7,228	7,328	7,679	+451	+6%	+970	+14%
Education Technology	....	56	74	357	+301	+538%	+357	NA
Safe and Drug-Free Schools	582	466	500	540	+74	+16%	–42	–10%
Special education	2,966	3,253	3,342	3,553	+300	+9%	+587	+20%
Eisenhower/Ch. 2 teacher training	682	599	599	610	+11	+2%	–72	–11%
Summer jobs for youth	849	867	635	871	+4	+*%	+22	+3%
Job Corps	966	1,089	1,121	1,154	+65	+6%	+188	+19%
Out-of-School Youth	....	....	....	250	+250	NA	+250	NA
School-to-Work opportunities	....	245	372	400	+155	+63%	+400	NA
Vocational and adult education	1,474	1,383	1,383	1,420	+37	+3%	–54	–4%
Adult/dislocated worker training	1,666	2,226	2,176	2,240	+14	+1%	+574	+34%
Honors scholarships	....	....	....	130	+130	NA	+130	NA
Pell grants [2]	5,633	5,444	6,189	6,425	+981	+18%	+792	+14%
College work-study	616	617	617	679	+62	+10%	+63	+10%
Total	**24,919**	**27,385**	**28,473**	**30,820**	**+3,435**	**+13%**	**+5,901**	**+24%**
Student loans (dollar amount of loans, in millions):								
New loans:								
Direct loans	....	5,200	10,400	13,200	+8,000	+154%	+13,200	NA
Guaranteed loans	16,100	18,500	14,800	13,200	–5,300	–29%	–2,900	–18%
Loan consolidations	1,500	3,400	4,900	6,100	+2,700	+79%	+4,600	+307%
Total loan volume	**17,600**	**27,100**	**30,100**	**32,500**	**+5,400**	**+20%**	**+14,900**	**+85%**

NA = Not applicable.
* Less than $500 thousand or 0.5 percent.
[1] Includes Administration's proposed adjustments to 1996 continuing resolution levels.
[2] To permit comparability, data are shown at the program level, not budget authority.

and links children and their families to a wide array of services in their communities.

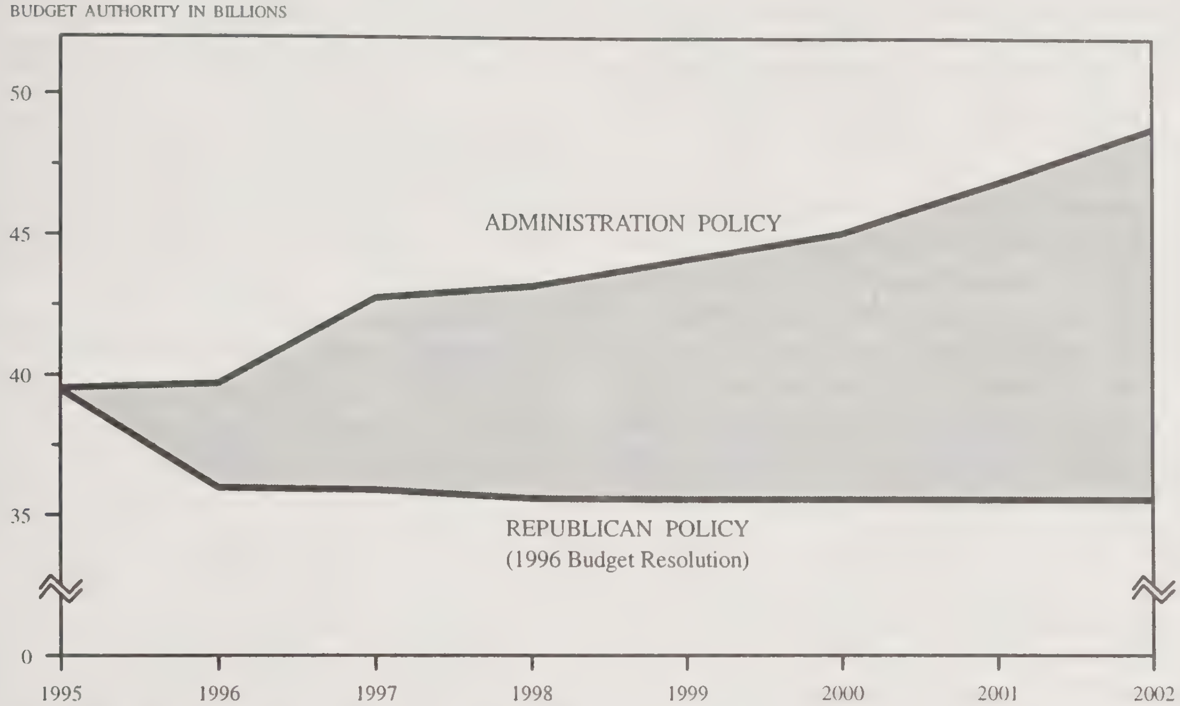
To ensure that all Head Start programs consistently deliver the high-quality services needed to produce good results for children, the President proposed, and Congress enacted, major quality improvements in 1994. This budget builds on these important gains by continuing to support local efforts to improve the quality of instruction, attract and retain better workers, improve child-to-staff ratios, and upgrade facilities.

The budget proposes $3.98 billion for Head Start, $447 million more than in 1995, which would enable another 46,000 children to participate. The budget proposes to enable a million children to participate by 2002 (see Chart 8–2).

Elementary and Secondary Education

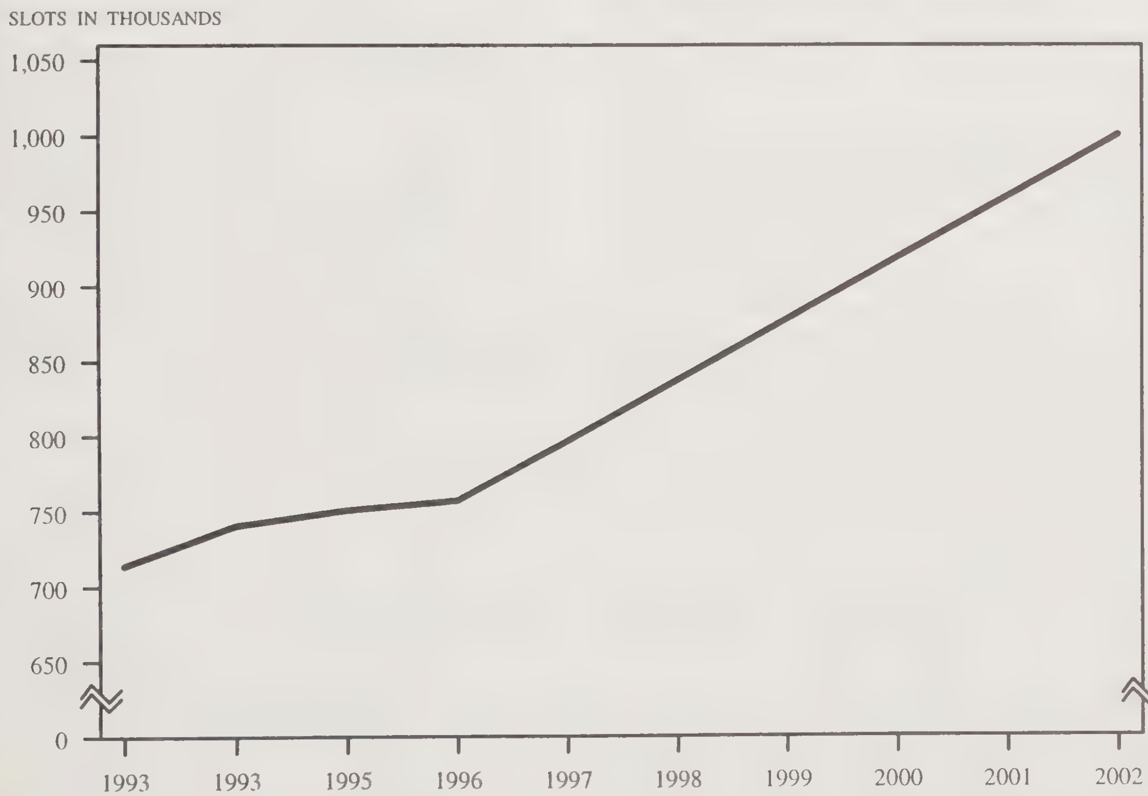
Education is a national priority and a State and local responsibility. Americans widely support State and local control of elementary and secondary education. At the same time, the Federal Government over the years has helped to improve areas of critical concern to all Americans, such as teacher education or schooling for low-income children or those with disabilities.

Chart 8-1. THE BUDGET MAINTAINS LONG-RANGE COMMITMENT TO EDUCATION AND TRAINING: $61 BILLION OVER REPUBLICAN PLAN, 1996-2002



Notes: Discretionary budget authority, function 500: Education, Training, & Social Services. Includes Education Department, Labor Department training, Head Start, national service, and other activities.
Because of anomalies in technical estimates for the Pell program, 1996 and 1997 include program level instead of budget authority.

Chart 8-2. 46 THOUSAND NEW HEAD START OPPORTUNITIES FOR CHILDREN IN 1997 OVER 1995; ONE MILLION BY 2002



This Administration has energized State and local efforts to raise the educational achievement of every child and to create safe learning environments. It also has worked with Congress to improve the largest Federal education programs for disadvantaged children, focusing them more on results and less on process.

Goals 2000: This Administration initiative, enacted in 1994, supports State efforts to raise academic achievement for all students. Goals 2000 helps States and communities focus on results. It builds on the National Education Goals, first articulated by the Nation's governors (led by then-Governor Bill Clinton) and President Bush in 1989, which provide clear targets but encourage States to develop their own means to achieve them.

States and localities receive funds to set their own challenging academic standards for all children, then design their curriculum, teacher training, educational technology, instruction methods, and assessment tools around them. Goals 2000 also helps States and schools involve parents in the education of their children. Currently, nearly all States participate in the program.

The budget proposes $491 million for the program, 32 percent more than in 1995. Under it, every State and over 12,000 schools could receive grants.

Charter Schools: Charter schools are public schools that parents, teachers, and communities create, and that States free from most rules and regulations and hold accountable for raising student achievement. Begun as a grassroots movement in 1991, and supported by Federal start-up funds since 1995, public charter schools now number 250 nationwide, some of them already showing results in higher student test scores and lower drop-out rates. The budget proposes $40 million for public charter schools in 1997, and increases over the next five years to fund start-up costs for up to 3,000 such new schools.

Title I—Education for the Disadvantaged: Title I provides funds to raise the educational achievement of disadvantaged children. In 1994, the President proposed and Congress adopted changes to: focus Title I resources better on areas with the largest concentrations of low-income children; set the same high standards for those children as for all others; and hold schools accountable for progress toward achieving those standards. Schools now have much more flexibility in using these funds. The budget includes $7.7 billion, six percent more than in 1995.

Education Technology: Technology can expand learning opportunities for all students and help raise student achievement. Yet many school districts lack the necessary resources to integrate technology fully into their school curricula.

The President has launched a national mission to ensure that all children are technologically literate by the dawn of the 21st Century, with communication, math, science, and critical thinking skills essential to succeed in the Information Age. Specifically, the President proposes a Technology Literacy Challenge Fund, with four goals: (1) helping States put enough computers in every classroom; (2) connecting these computers to the Information Superhighway; (3) giving teachers the training they need to integrate technology into teaching; and (4) fostering the development of high quality, widely available edu-

HOW STATES USE GOALS 2000 TO ADVANCE THEIR REFORMS

In Maryland, scores on tests designed to measure progress toward the State's standards are increasing year after year.

In Michigan, 13 Upper Peninsula school districts are working with Bay Mills Community College and Lake Superior University to train teachers to use technology to improve math and science teaching and learning.

In Harrison County, Kentucky, Goals 2000 is helping train parents as volunteer instructional aides and reaching out to parents through cable television programs and homework hotlines.

cational software. To be eligible for Federal funds, a State must meet three challenges:

- develop a strategy that enables every school in the State to meet the four goals by the dawn of the 21st Century, complete with benchmarks and timetables;
- demonstrate significant private sector participation and commitments that should at least match the amount of Federal support; and
- publicly report at the end of every school year on progress in achieving its benchmarks.

The budget requests $250 million for the Challenge Fund in 1997, and $2 billion over five years.

The budget also expands the successful Technology Learning Challenge program, which in 1995 began providing school-centered, public-private partnerships with matching Federal funds to support projects that integrate technology into the curriculum. In 1995, $10 million funded 19 partnerships and leveraged over $70 million in other public- and private-sector resources. The budget provides $75 million for the program.

Teacher Training: The Eisenhower Professional Development program helps States invest in training teachers and other educators so that they, in turn, can help all children reach the State's challenging academic standards. The President proposed, and Congress enacted, major improvements in 1994 to ensure that the training is of high enough quality and sufficient duration to pay off in the classroom. For this purpose, the budget combines funding for the Eisenhower program with general funds now in Title VI of the Elementary and Secondary Education Act; all told, it provides $610 million for these activities.

Safe and Drug-Free Schools and Communities: Students can reach their full potential only if they can learn in safe and disciplined environments. This program helps 97 percent of the Nation's school districts implement anti-drug and anti-violence programs in our schools. It helps students resolve conflicts before they escalate into tragedy, teaches them the dangers of drug use, and helps schools increase security measures. The budget includes $540 million for this program, a $74 million increase over the 1995 level.

Special Education: States have made considerable progress in providing children with disabilities "free appropriate public education," as the Individuals with Disabilities Education Act (IDEA) calls for. The primary challenge now is to improve the quality of that education so that children with disabilities can, as much as possible, meet challenging standards that have been established for all children, and be prepared to lead productive, independent adult lives.

To that end, the Administration proposed amendments to IDEA in 1995 to link individualized education programs to participation in the general curriculum; require that children with disabilities be included in State- and district-wide assessment programs; and give States and schools greater flexibility to use IDEA funds to meet children's needs in the regular classroom.

The budget provides $3.6 billion for special education, nine percent more than in 1995.

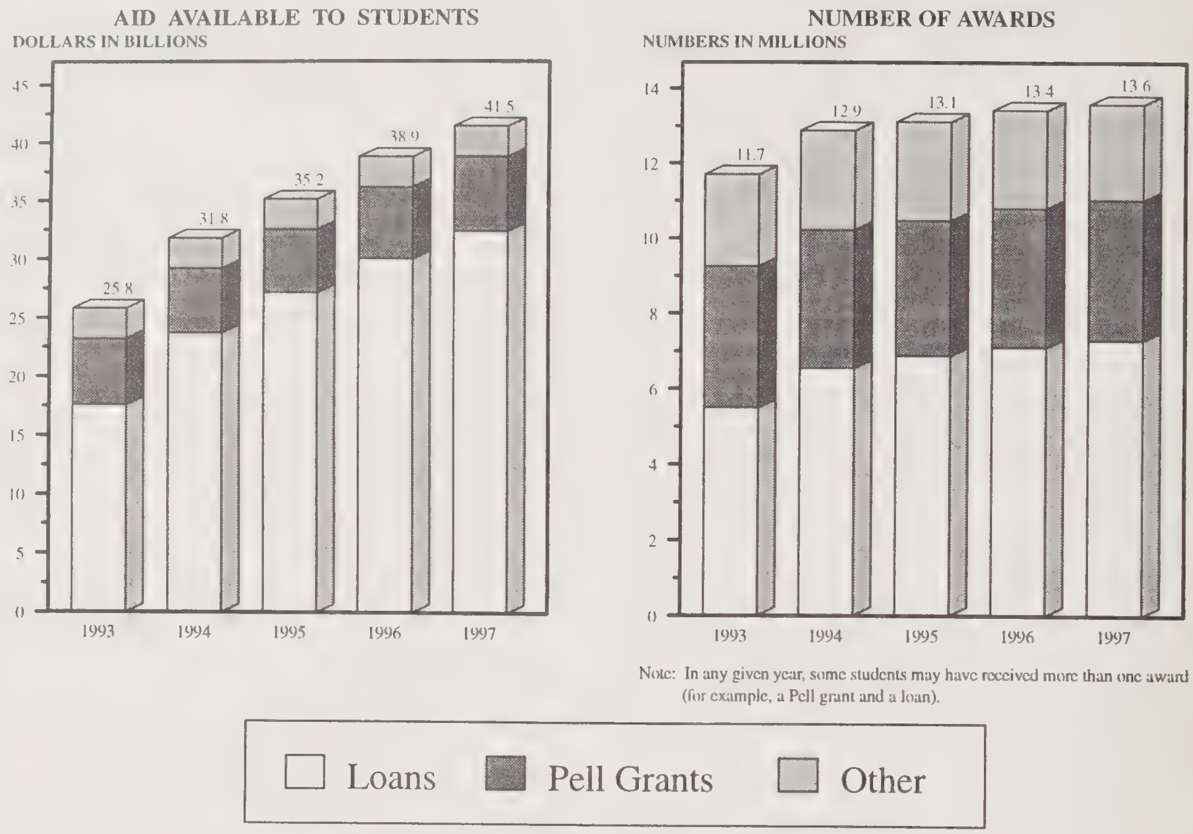
Postsecondary Education

The Federal Government's primary roles in postsecondary education and skill training are to (1) help students finance their education; and (2) help ensure the availability of skill training and access to good jobs for youth and adults, including dislocated workers. (For information on skill training, see the section on the G.I. Bill for America's Workers.)

Postsecondary costs continue to climb rapidly, outpacing the ability of many working families to meet them without sizable assistance. To that end, the budget proposes more aid to more individuals than ever before (see Chart 8–3). It also proposes a phased-in, $10,000 tax deduction to help families pay for education and career training beyond high school. (For more details on the tax deduction, see Chapter 12.)

Student Loans: An estimated 5.7 million individuals will borrow over $32 billion through the Federal student loan programs in 1997. Families at any income level can receive loans, but needy students can get interest sub-

CHART 8-3. THE BUDGET PROVIDES UNPRECEDENTED AMOUNTS OF STUDENT FINANCIAL AID TO HELP MORE STUDENTS PAY FOR POSTSECONDARY EDUCATION AND TRAINING



sidies. The loans finance study toward undergraduate or graduate degrees, or short-term vocational training programs. The annual maximum loan amount varies from $2,625 for a first-year student financially dependent on his or her parents, to $18,500 for a graduate or professional program student.

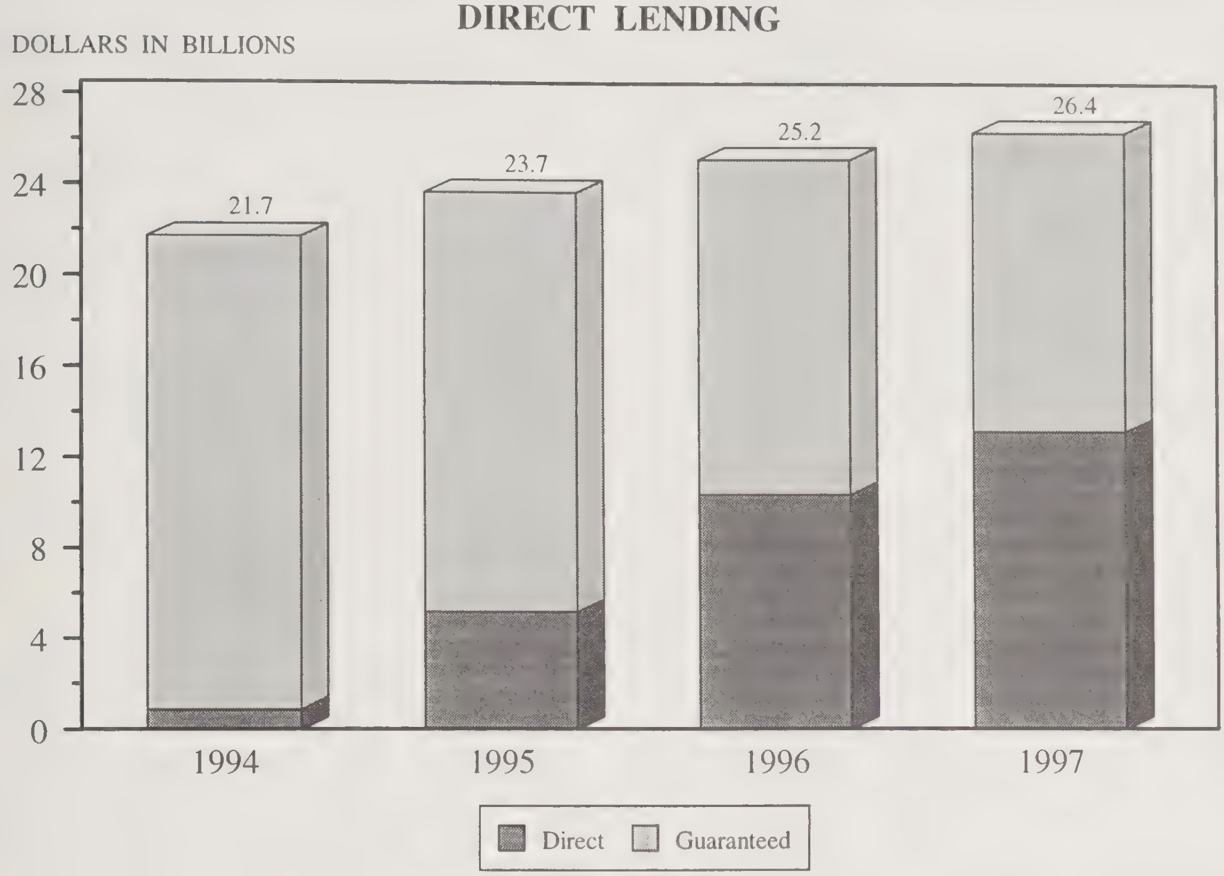
Eligible institutions of higher education may participate in either the Federal Direct Loan Program (FDLP) or the Federal Family Education Loan Program (FFELP). FDLP, enacted at the President's request in 1993, offers an efficient, streamlined, low-cost system for students, parents, and schools. It also offers flexible repayment options for students, including repayment based on income. The Education Department estimates that direct loans will make up half of total loan volume in academic year 1996–97 (see Chart 8–4).

The FFELP, created in 1965, is a bank-based program, with over 7,000 commercial and other lenders receiving Federal guarantees through 36 non-profit and State intermediaries, 90 secondary markets eventually holding most loans, and dozens of servicing companies. Federal and school administrative burdens and complexities are much greater and costlier under FFELP.

The budget proposes legislative changes to both programs to save money without increasing costs or curtailing benefits to borrowers.

Pell Grants: Pell grants provide need-based grants to low- and middle-income undergraduates for associate and bachelors degree programs and vocational training. In the 1995–96 academic year, about 3.6 million students, a fifth of all college students, are receiving grants. Over 61 percent of the recipients come from families with incomes under $15,000, and over 90 percent from families with incomes under $30,000.

Chart 8-4. NEW STUDENT LOAN BORROWING SHIFTS TOWARD DIRECT LENDING



Note: Chart excludes consolidation loans in all years.

Pell grants help raise the participation and graduation rates of low-income students in postsecondary programs. Recipients from the poorest families are twice as likely to earn a bachelor's degree as are college students from similar families without grants.

For 1997, the budget would raise the maximum Pell grant to $2,700, a $360 increase over 1995. It also would continue to raise the maximum award by three percent a year, providing a maximum award of $3,128 in 2002.

Presidential Honors Scholarships: The President proposes to create an achievement-based scholarship program, rewarding the best and the brightest of high school students. This program would grant $1,000 honors awards to the top five percent of graduating students in every secondary school in the Nation, making clear the Government's commitment to excellence for all children. The budget requests $130 million for this program.

College Work-Study: Work-study helps needy undergraduate and graduate students through part-time employment, rewarding their hard work and commitment to education. The President proposes a significant expansion over the next four years, enabling the program to serve a million students a year by 2000. The budget proposes $679 million, 10 percent more than in 1995.

G.I. Bill for America's Workers

Most people change jobs and get new skills by themselves or through employers. For others who need help, the Federal Government has supported State and private efforts over the last 30 years to provide it, but with mixed results.

Last year, the President proposed to dramatically overhaul the complex, inefficient structure of Federal job training programs through the G.I. Bill for America's Workers. It would consolidate some 70 programs into a single, integrated workforce development

system. It would make the programs more effective by cutting bureaucracy, streamlining administration, and improving accountability by freeing States and localities to focus on results, not process.

As of this writing, Congress was considering legislation based on the principles of the G.I. Bill. House- and Senate-passed bills differ, but final legislation should embody the President's vision of fostering individual opportunity by: giving workers the resources—i.e., Skill Grants—and information they need to make good training choices; providing access to employment services through customer-friendly, "One-stop" career centers; and designing youth programs based on the School-to-Work Opportunities Act. But, because the new law may not take full effect until 1998, the budget proposes funding for the separate programs that would remain in place until then.

The budget provides sizeable new support for those with the biggest job problems—out-of-school youth in low-income areas—building on lessons of the past and relying on locally-tailored designs. It proposes to maintain support for programs that come under the G.I. Bill. To ensure that employers comply with Federal workplace laws, it maintains, and often substantially reforms, enforcement programs.

Out-of-School Youth Opportunities Program: Recognizing the special problems of out-of-school youth, the budget proposes $250 million for new competitive grants to the lowest-income urban and rural areas with major youth unemployment problems. These communities would have to provide matching funds from State, local, or private sources. The Labor Department would award funds based on the quality of applications—that is, to those with the best chance of substantially increasing employment among youth in the area.

In a related proposal, the Administration's plan to fund a second round of Empowerment Zones and Enterprise Communities for distressed communities includes $50 million for the Labor Department to support a "Jobs for Residents" component. (For more information on the Empowerment Zones and Enterprise Communities program, see Chapter 5.)

School-to-Work: School-to-Work, which the Education and Labor Departments administer jointly, gives States and communities competitive grants to build comprehensive systems to help young people move from high school to careers or postsecondary training and education. Young people can prepare for high-skill, high-wage careers; receive top-quality academic and occupational training; and pursue more education or training. And businesses get the trained workers they need to stay globally competitive.

By mid-1996, 27 States and 91 local partnerships will have received grants to implement their school-to-work systems. The budget proposes $400 million for the program, a 63 percent increase over 1995. With it, the Government could allocate implementation grants to nearly every State.

Summer Youth: The Summer Youth Employment and Training Program (SYETP) gives many urban and rural disadvantaged students their first work experiences, and localities may include an academic component that reenforces the skills they have learned during the school year. Under the G.I. Bill, SYETP would continue to provide these services, but would be fully integrated into each local school-to-work system.

For 1996, Congress sought to eliminate SYETP, but the President is committed to ensuring that it continues. The budget expands the program to provide 574,000 opportunities for the summer of 1997.

Job Corps: The Job Corps provides intensive skill training, academic and social education, and support services to severely disadvantaged young people in a controlled residential setting. The budget provides $1.2 billion to fund opportunities for 68,000 young people.

Dislocated Workers and Low-Income Adult Training: The budget proposes $2.2 billion for Job Training Partnership Act programs that provide training, job search assistance, and related services to laid-off workers and economically disadvantaged adults. When the new workforce development system begins operating in 1998, these funds would finance, among other things, Skill Grants with which adults pay for the training of their choice.

9. PROTECTING THE ENVIRONMENT

> *[P]rotecting our environment is a fundamental community value for all Americans, and it can't be sacrificed to balance the budget. Because we cherish our children, we want to be sure the water they drink and the food they eat won't make them sick. Because we honor our parents, we want the air they breathe to be clean so they can live long and healthy lives and not be housebound by smog. Because we believe that what God created, we must not destroy, each of us has a sacred obligation to pass on a clean planet to future generations.*
>
> President Clinton
> November 1995

The modern era of environmental protection began over 25 years ago with passage of landmark legislation and creation of the Environmental Protection Agency (EPA). Thanks to a generation of bipartisan effort, the environment is a great American success story. The air is cleaner, the water safer, and the land less polluted with toxic chemicals.

Despite these gains, we have much more to do. A third of Americans still live in areas that do not meet air quality standards, and too many communities have drinking water whose safety is threatened. While the solutions of 25 years ago are not necessarily the best suited for tomorrow's challenges, we should not discard the gains, or forget the lessons learned, by rolling back environmental safeguards that Americans find so important.

Americans want a Government that helps protect the environment and our natural resources without burdening business, choking innovation, or wasting taxpayer dollars. To meet these objectives, the Administration has been reinventing the regulatory process to cut excessive regulation, and targeting investments in programs that will have the biggest impact on improving the environment, protecting public health, providing more opportunities for outdoor recreation, and enhancing natural resources.

In his 1996 State of the Union address, the President's fifth challenge for the Nation was to leave our environment safe and clean for the next generation. This budget and ongoing Administration policies reflect the President's strong commitment to meet that challenge.

MEETING THE CHALLENGE

The Administration has pioneered various ways to protect the environment and conserve natural resources that are cleaner, cheaper, and smarter.

Regulatory Reinvention: The President has challenged businesses to take more initiative to protect the environment, and pledged to make it easier for them to do so. In this regard, the Administration's regulatory reinvention efforts have been broad and far-reaching. In March 1995, the President announced a comprehensive set of 25 high-priority actions to substantially improve the regulatory system and move significantly toward a new and better environmental management system for the 21st Century.

One of the most fundamental reforms is Project XL (for excellence and leadership), a pilot program for 50 companies or communities. Under it, companies will get the opportunity to set aside EPA rules if they can design an alternative system that will be both cheaper for the company and cleaner for the environment.

The Emergency Planning and Community Right-To-Know Act has been among the most successful, cost-effective laws ever enacted—under it, toxic releases of reported chemicals

have fallen over 40 percent. The law succeeds because it recognizes that knowledge is power and that, often, the most effective way to achieve environmental protection is to give the power back to the community.

To build on this success, the President strongly supports expanding the requirements for industry to disclose releases, because the public has a right to know that its air and water are safe. But, because the law is most effective when communities and citizen groups actively use the information, the President has challenged communities to take the initiative and work with business to cut pollution.

The President is committed to cutting the paperwork tied to meeting environmental standards by 25 percent, which will save businesses and communities 20 million hours of work. For small businesses, the President has pledged to create centers to help them comply with environmental standards, and to give them a six-month grace period for correcting infractions before penalizing them when they act in good faith. In addition, EPA is eliminating over 1,400 pages of regulations.

Performance Partnerships: In last year's budget, EPA proposed to offer States and Tribes one or more Performance Partnership grants, to combine several categorical grants (e.g., grants that go specifically to address air, water, or hazardous waste). The partnership grants would consolidate funding streams, cut micromanagement, and focus programs on results. While the proposal awaits legislative action, State officials and others have praised it and the Administration is proposing it again this year.

In May 1995, the Environmental Council of the States, consisting of the State environmental commissioners, adopted a resolution of support for the partnership grants, and agreed with EPA on a broader proposal to create a new partnership based on performance. This partnership system includes environmental performance agreements and less intensive EPA oversight of States with strong performance.

In September 1995, the third report of Vice President Gore's National Performance Review [1] proposed to give States more flexibility to move funds between the Clean Water and Drinking Water State Revolving Funds. This initiative, which the budget proposes, would give States more flexibility to address high-priority water infrastructure issues.

Ecosystem Management: The Administration has pioneered the use of ecosystem management—an approach to restore and maintain the health, sustainability, and biological diversity of marine and terrestrial ecosystems while supporting vital economies and communities.

- ***Everglades/South Florida Ecosystem Restoration Initiative:*** The South Florida Ecosystem is a unique national treasure that includes the Everglades, Florida Bay, and other internationally-renowned natural resources. Its long-term viability and sustainability is critical for the tourism and fishing industries, as well as the water supply, economy, and quality of life for South Florida's entire population of over six million people.

  In the budget, the Administration is proposing legislation to establish an "Everglades Restoration Fund" to provide a steady source of funding, mainly for land acquisition, to maintain a sustainable ecosystem. The budget proposes $100 million a year for four years to establish the Fund. In addition, the budget proposes a one-cent-per-pound marketing assessment on Florida sugar production to add about $35 million a year to the Fund. This approach divides the costs of restoration between the public and the principal industry that has benefited from water projects altering the South Florida ecosystem.

  In addition, the budget would continue to strongly support the active programs of various Federal agencies involved in the Everglades and South Florida ecosystem restoration. The budget would increase funding for the initiative to $136 million, compared to $104 million in 1996.

- ***Northwest Forest Plan (Oregon, Washington, and Northern California):*** The President's Forest Plan is protecting natural resources and providing new economic

[1] *Common Sense Government.*

opportunities for the people of the Pacific Northwest. It is a balanced, science-based blueprint to strengthen the economic and environmental health of the three-State area. It is also the first region-wide application of ecosystem management by Federal, State, and local agencies; Tribes; nongovernmental organizations; and individuals.

The Administration has begun refilling the timber pipeline with hundreds of millions of board feet of timber for the first time in years; restored thousands of acres of key habitat and watersheds while providing short-term employment opportunities to displaced timber workers; spurred small businesses through grants and job training; and strengthened local economies.

In 1995, the region received over $350 million in grants, loans, and other resources through the coordinated efforts of 12 Federal agencies. The Federal Government plans to spend just $318 million in 1996 (due to congressional cuts), but the budget proposes $391 million for 1997.

The President also is seeking major changes in the timber provisions of the 1995 rescission law. He wants Congress to: repeal provisions that force the Government to award environmentally unsound contracts to cut "old-growth" timber; let the Government replace old-growth timber with other timber, or buy it back from contractors—before its harvesting causes environmental problems; and work with him to allow the private sector to harvest salvage timber in compliance with environmental laws.

- ***Salmon Recovery Plan:*** Salmon runs throughout the Pacific Northwest are a major part of the region's ecosystem and economy. For various reasons, salmon runs originating in the Columbia/Snake River Basin have declined so much that the National Marine Fisheries Service lists three runs as endangered or threatened.

  The Administration supports a regional, bipartisan effort to pay for recovery—including the preparation of a stable, multiyear salmon budget. The Administration, in October 1995, reached agreement with congressional and regional interests to establish a Federal contingency fund to try to hold salmon recovery costs to no more than $435 million for customers of the Bonneville Power Administration.

ENVIRONMENTAL AND NATURAL RESOURCE INVESTMENTS

The budget proposes to boost funding for high-priority environmental and natural resource programs by eight percent over the levels in place when the President took office (see Table 9–1).

EPA Operating Program: The budget proposes a nine percent increase over 1996, to $3.4 billion, for EPA's operating program, which includes most of EPA's research, regulatory, partnership grants (for States and Tribes), and enforcement programs. The program represents the backbone of the Nation's efforts to protect public health through standard setting, enforcement, and other means to ensure that our water is pure, our air clean, and our food safe.

Chart 9–1 illustrates the Nation's progress in improving air quality but also pinpoints where we still need to go. Similarly, Chart 9–2 illustrates the progress needed in improving wastewater treatment to help reach water quality goals.

The budget stresses environmental enforcement to ensure that polluters find a cop on the environmental beat. It would fully fund the EPA's part of the Climate Change Action Plan to promote voluntary, innovative energy conservation programs to meet our international commitments to reduce greenhouse gases. In addition, the budget would fund the Environmental Technology Initiative to spur the development of new technologies to protect public health, cut costs, create new jobs, and increase exports. Finally, the budget continues to support a "watershed approach" for key water systems, such as the Great Lakes and Chesapeake Bay, in which the Government considers the system as a whole—rather than, separately, each individual threat to the environment and public health.

Table 9–1. ENVIRONMENTAL/NATURAL RESOURCE INVESTMENTS AND OTHER HIGH-PRIORITY PROGRAMS

(Discretionary budget authority unless otherwise noted; dollar amounts in millions)

	1993 Actual	1995 Actual	1996 Estimate [1]	1997 Proposed	Dollar Change: 1996 to 1997	Percent Change: 1996 to 1997
Environmental Protection Agency (EPA):						
Operating Program	2,767	2,853	3,113	3,403	+290	+9%
State Revolving Funds (SRFs):						
Clean Water	1,928	1,236	1,365	1,350	–15	–1%
Drinking Water	....	–374	500	550	+50	+10%
Superfund	1,589	1,354	1,313	1,394	+81	+6%
Other	639	900	386	330	–56	–15%
Subtotal, EPA	6,923	5,969	6,677	7,027	+350	+5%
Department of the Interior (DOI):						
National Park Service Operating Program	984	1,078	1,158	1,173	+15	+1%
Bureau of Land Management Operating Program	638	695	658	685	+27	+4%
Fish & Wildlife Service Operating Program	531	511	498	540	+42	+8%
Investment Non-Operating Program (Natural Resources Research and other)	11	192	182	290	+108	+59%
Subtotal, DOI (Select programs)	2,164	2,476	2,496	2,688	+192	+8%
Department of Agriculture (USDA):						
Forest Service Operating Program	1,319	1,338	1,256	1,292	+36	+3%
Investment Non-Operating Program (NW Forest Plan, Infrastructure, and other)	276	234	172	199	+27	+16%
Rural Water & Wastewater	508	627	488	659	+171	+35%
Wetlands	115	212	139	216	+77	+55%
Wetlands Reserve Program (Mandatory)	....	93	77	188	+111	+144%
Conservation Reserve Program (Mandatory)	1,579	1,743	1,782	1,925	+143	+8%
Subtotal, USDA (Select programs)	3,797	4,247	3,914	4,479	+565	+14%
Land Acquisition: LWCF (DOI/USDA) and Everglades Restoration Fund (DOI)	285	217	140	262	+122	+87%
Other Everglades Restoration (DOI, Corps, USDA, NOAA, EPA)	82	103	104	136	+32	+31%
Department of Energy (DOE):						
Energy Conservation and Efficiency	592	715	613	715	+102	+17%
Solar and Renewable Energy R&D	257	363	275	363	+88	+32%
Federal Facilities Cleanup (Environmental Management Program)	6,396	5,804	6,084	6,059	–25	–*
Subtotal, DOE (Select programs)	7,245	6,882	6,972	7,137	+165	+2%
Department of Defense (DOD):						
Cleanup	1,604	2,086	2,093	2,108	+15	+1%
Environmental Compliance/Pollution Prevention/Conservation	2,227	2,504	2,654	2,406	–248	–9%
Environmental Technology	393	281	223	204	–19	–9%
Subtotal, DOD (Select programs)	4,224	4,871	4,970	4,718	–252	–5%
National Oceanic and Atmospheric Administration (NOAA):						
Fisheries and Protected Species	232	269	282	306	+24	+9%
Ocean and Coastal Management	121	130	119	132	+13	+11%
Ocean and Atmospheric Research	138	160	156	160	+4	+3%
Subtotal, NOAA (Select programs)	491	559	557	598	+41	+7%
Pacific Northwest Forest Plan (USDA, DOI, EPA, DOC, DOL)	....	359	318	391	+73	+23%
Army Corps of Engineers Regulatory Program (wetlands)	86	102	101	112	+11	+11%
Partnership for a New Generation of Vehicles (DOE, DOC, NSF, EPA, DOT)	....	223	241	288	+47	+20%
U.S. Global Change Research (NASA, DOE, NSF, DOC, others)	1,319	1,785	1,712	1,852	+140	+8%
Climate Change Action Plan (EPA, DOE, USDA, Corps)	....	218	224	305	+81	+36%
GLOBE—Global Environmental Education (NOAA, NASA, EPA, NSF)	....	15	14	15	+1	+7%
Montreal Protocol (State/EPA)	25	38	34	47	+13	+38%
Global Environment Facility (Treasury)	....	90	35	100	+65	+186%
Multilateral & Bilateral Assistance (Funds Appropriated to the President/AID)	272	355	310	343	+33	+11%
Border Environmental Activities (State/Treasury)	30	81	81	87	+6	+7%
Total [2]	25,190	25,803	26,204	27,309	+1,105	+4%

* Less than $500 thousand or 0.5 percent.
[1] Includes Administration's proposed adjustments to 1996 continuing resolution levels.
[2] Total adjusted to eliminate double counts and mandatory spending.

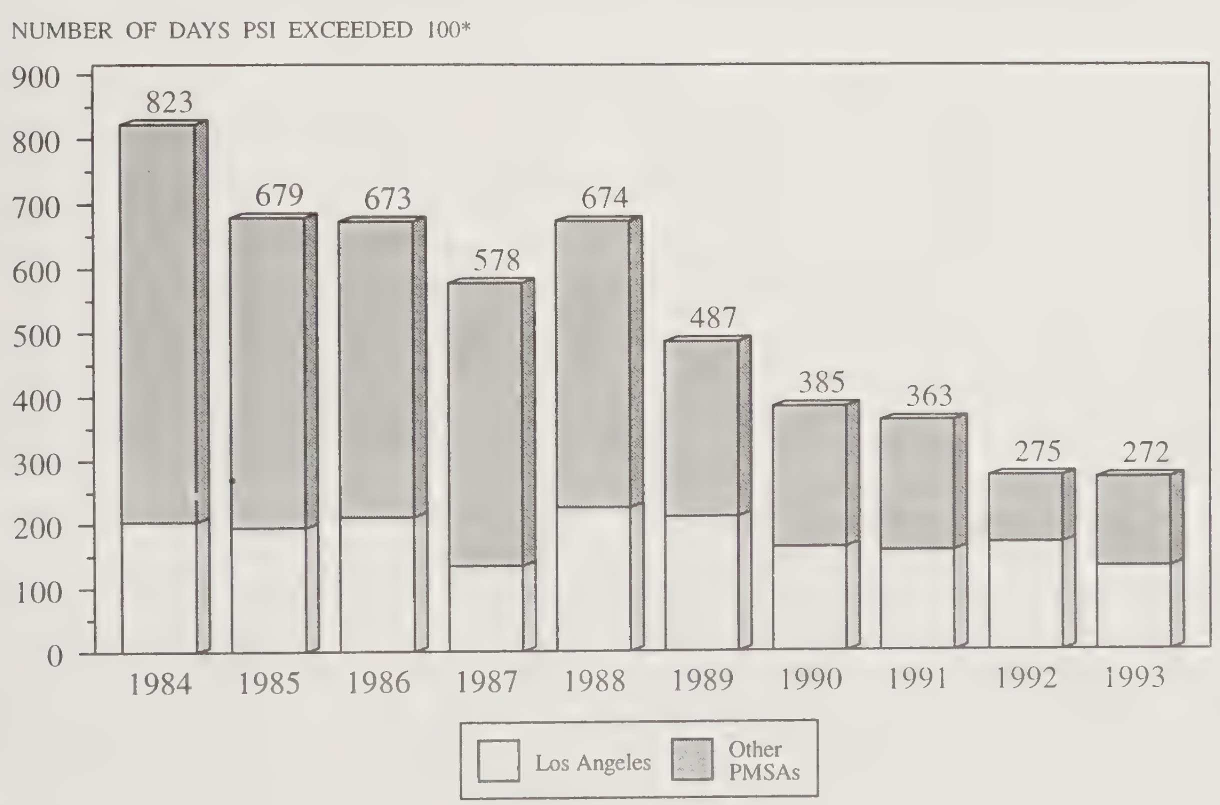
Natural Resource Protection: The budget continues the President's commitment to protect the national parks and forests, wildlife refuges, other public lands, and marine sanctuaries. While offering natural beauty, historical significance, and other pleasures for today's and future generations, these areas play an important role in maintaining ecosystem stability and protecting species that are threatened or endangered.

The budget proposes $1.2 billion for operations in national parks, an increase of $15 million from 1996, to protect the Nation's important natural and cultural resources and provide a level of visitor services that the public rightly expects. The Administration will continue to promote entrepreneurial land management by seeking legislation to give the National Park Service more authority to collect user fees. The proposal would return 80 percent of new fee receipts of the National Park Service, Bureau of Land Management, and the Forest Service for each of them to use on visitor services. In addition, the budget proposes about $111 million in up-front funding (to be spent over several years) to restore the Elwha River watershed and fisheries in and around the Olympic National Park, in the State of Washington. Chart 9–3 illustrates the growing demand for recreational services in parks, forests, refuges, and public lands.

Endangered Species Act: The Administration is committed to the goals of the Endangered Species Act (ESA). Congress, however, has voted to severely limit the ability of the Interior and Commerce Departments to carry out the ESA by placing unwarranted moratoria on listing actions and eliminating funding for listing new species.

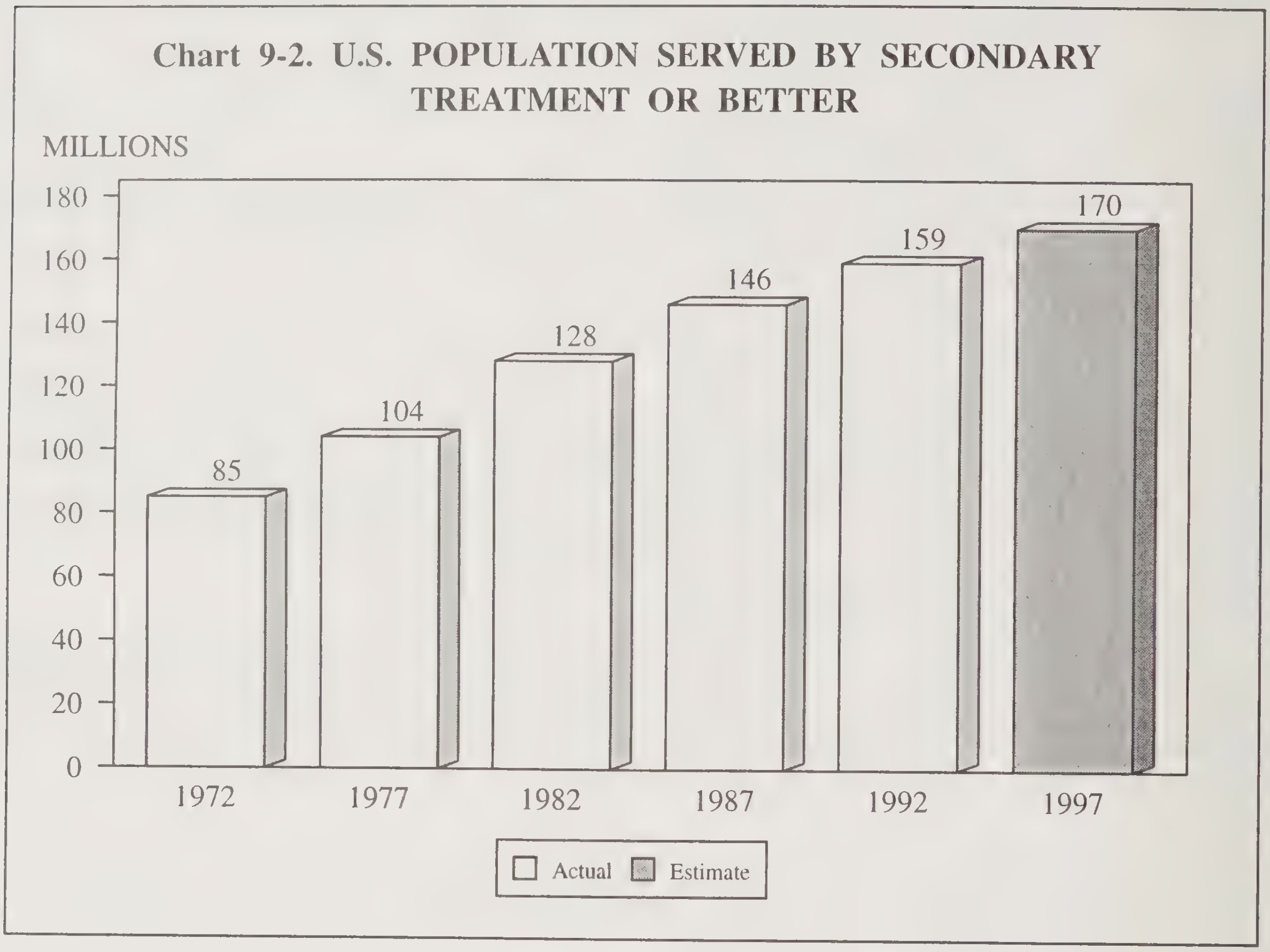
Last year, the Administration unveiled a 10-point plan to better implement the ESA. The plan shows that the Government can administer the ESA to protect species and improve recovery rates in ways that minimize

Chart 9-1. AIR QUALITY TRENDS IN MAJOR URBAN AREAS



PMSA = Primary Metropolitan Statistical Area PSI = Pollutant Standards Index (Air Quality)

*Note: A PSI level of 100 is the level which denotes that residents are breathing unhealthy air.



impacts on land owners and give greater authority to State and local governments. The budget contains full funding to implement the Administration's plan.

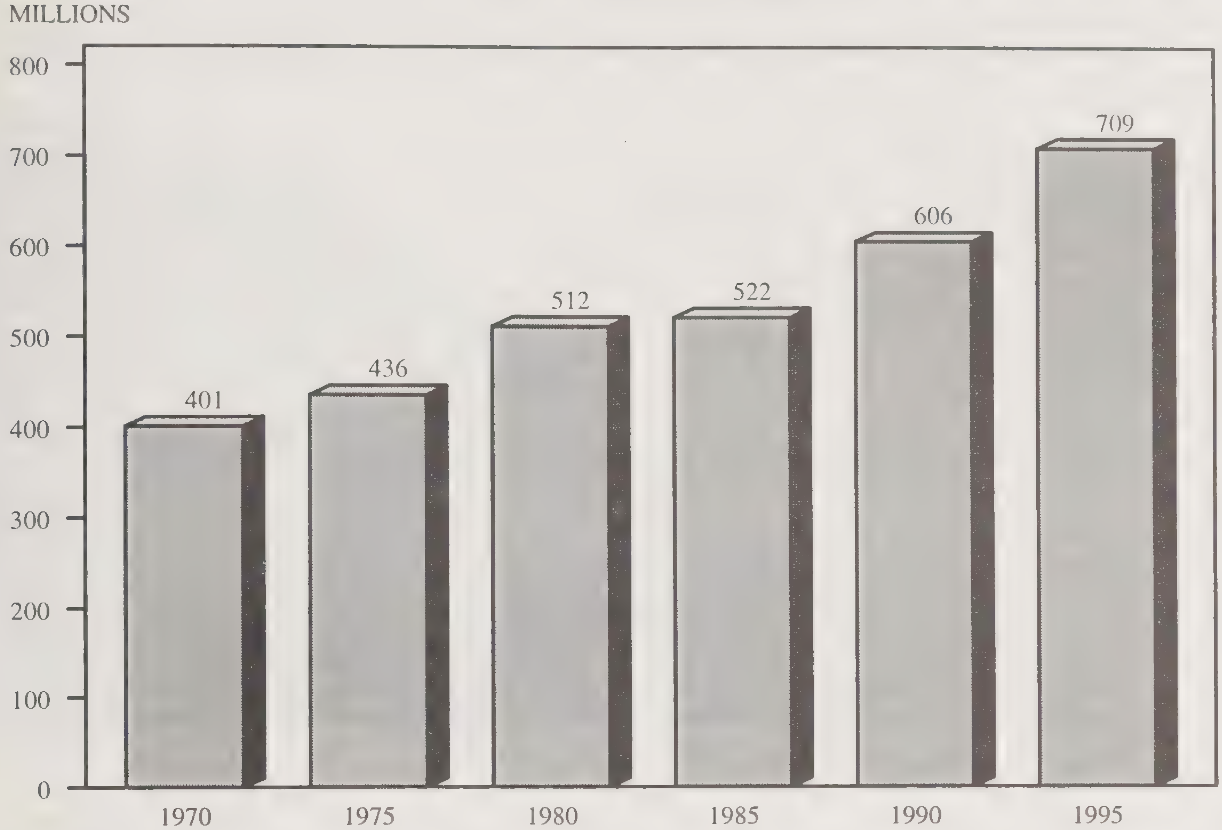
Healthy Coasts: Over half of Americans live in coastal areas—areas that provide unique and critical habitat for a wide range of species. The budget proposes to increase funds for programs that are instrumental in sustaining healthy coasts to $132 million in 1997, a $13 million increase over 1996, in the budget of the National Oceanic and Atmospheric Administration (NOAA). Among these vital efforts, NOAA is working to raise participation in the Coastal Zone Management Program, which promotes integrated coastal stewardship, from 29 to 34 states. In addition, NOAA's National Marine Sanctuaries Program will complete a management plan for the Florida Keys National Marine Sanctuary.

Water Quality Infrastructure: EPA provides capitalization grants to Clean Water State Revolving Funds (SRFs), which make low-interest loans to municipalities to improve compliance with the Clean Water Act. The budget proposes $1.35 billion for this program, which would help reduce beach closures and keep our waterways safe and clean. In addition, the budget proposes targeted wastewater funds for areas facing unique circumstances, such as high needs or an inability to pay—including $100 million for Boston Harbor, $150 million for U.S.-Mexico border projects, and $15 million for Alaskan Native villages.

The President also is proposing $550 million in Federal capitalization grants for new Drinking Water SRFs to help municipalities comply with the Safe Drinking Water Act. Such compliance will help ensure that our citizens have a safe, clean supply of drinking water—our first line of defense in protecting public health.

Department of Agriculture (USDA) "Water 2000": USDA has launched an effort

Chart 9-3. RECREATIONAL VISITS TO SELECT FEDERAL LANDS



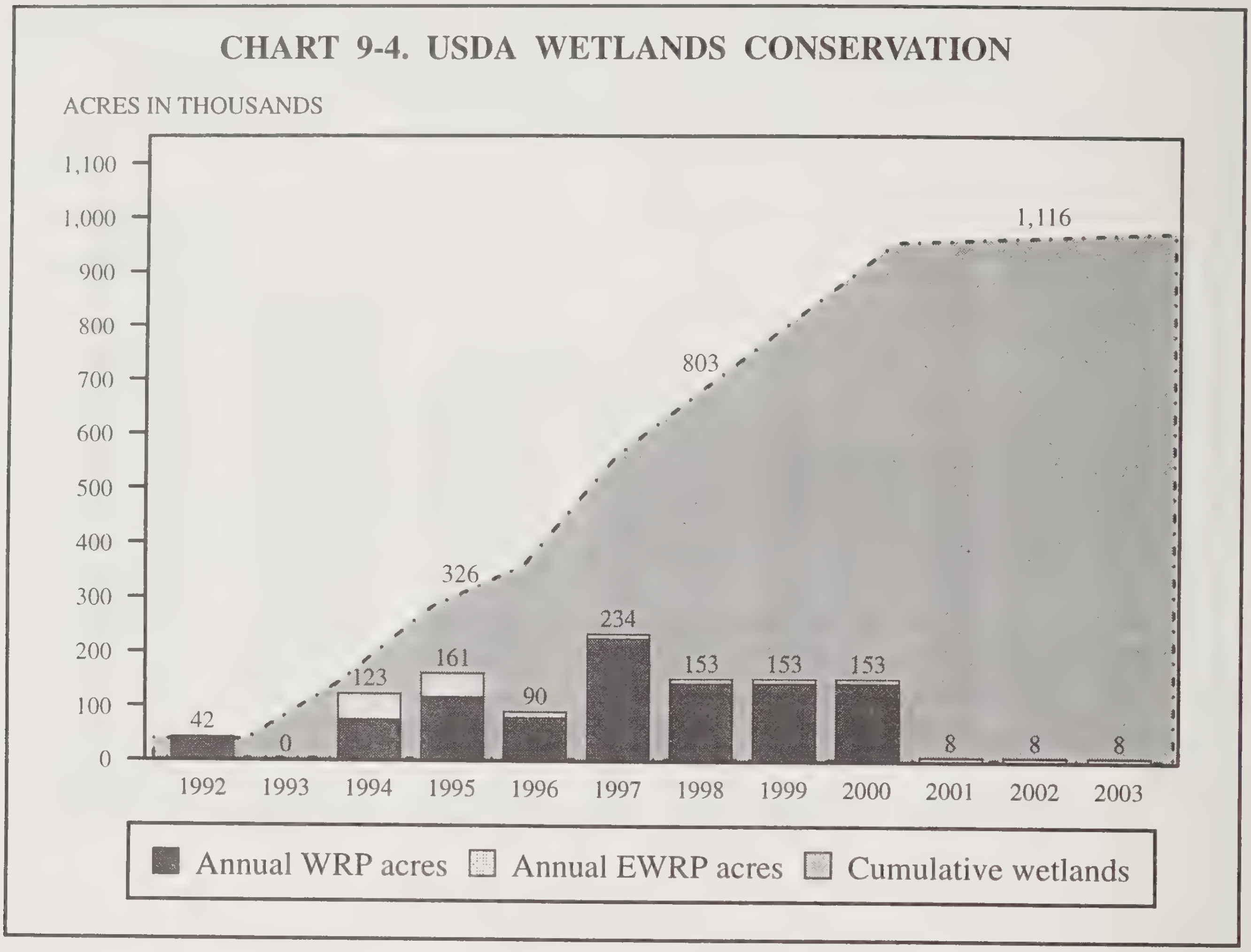
Note: Includes National Park Service, Fish & Wildlife Service, Bureau of Land Management, and Forest Service.

to bring safe drinking water to the remaining rural Americans in very remote areas who live without running water. The budget would fund the initiative, "Water 2000," as part of the $1.4 billion in loan and grant authority that it proposes for rural water and wastewater loans and grants, a 75 percent increase over 1996. In 1995, "Water 2000" funded 217 new water-treatment systems; the Administration expects to fund 150 new systems in 1996 and 225 in 1997.

Wetlands Reserve Program (WRP): Historically, developers obtained a fourth of U.S. cropland, or over 100 million acres, by clearing and draining wetlands. The WRP is a voluntary program in which willing sellers receive the fair market value to retire wetland acres from agricultural production. The WRP has been so popular with farmers that the Government has only had the funds to buy a fifth of the acres that landowners have offered. The budget proposes to purchase long-term and perpetual conservation easements on 226,000 acres in 1997, which—along with the "Swampbuster" provisions of Federal law that restrict farmers' use of wetlands—would allow continued progress toward reaching the President's goal of a net gain in national wetland acres (see Chart 9–4).

The retirement of cropland through the WRP will directly benefit the recovery of threatened or endangered species—though wetlands account for just five percent of land in the lower 48 States, almost 35 percent of threatened or endangered species live in, or depend on, wetlands. Also, because of other benefits of wetlands—floodwater retention and surface water storage—the budget assumes at least $5 million for the Emergency Wetlands Reserve Program (EWRP) in 1997 (depending on the nature of natural disasters that year).

Conservation Reserve Program (CRP): The CRP pays farmers to temporarily retire environmentally sensitive (mostly erosion-



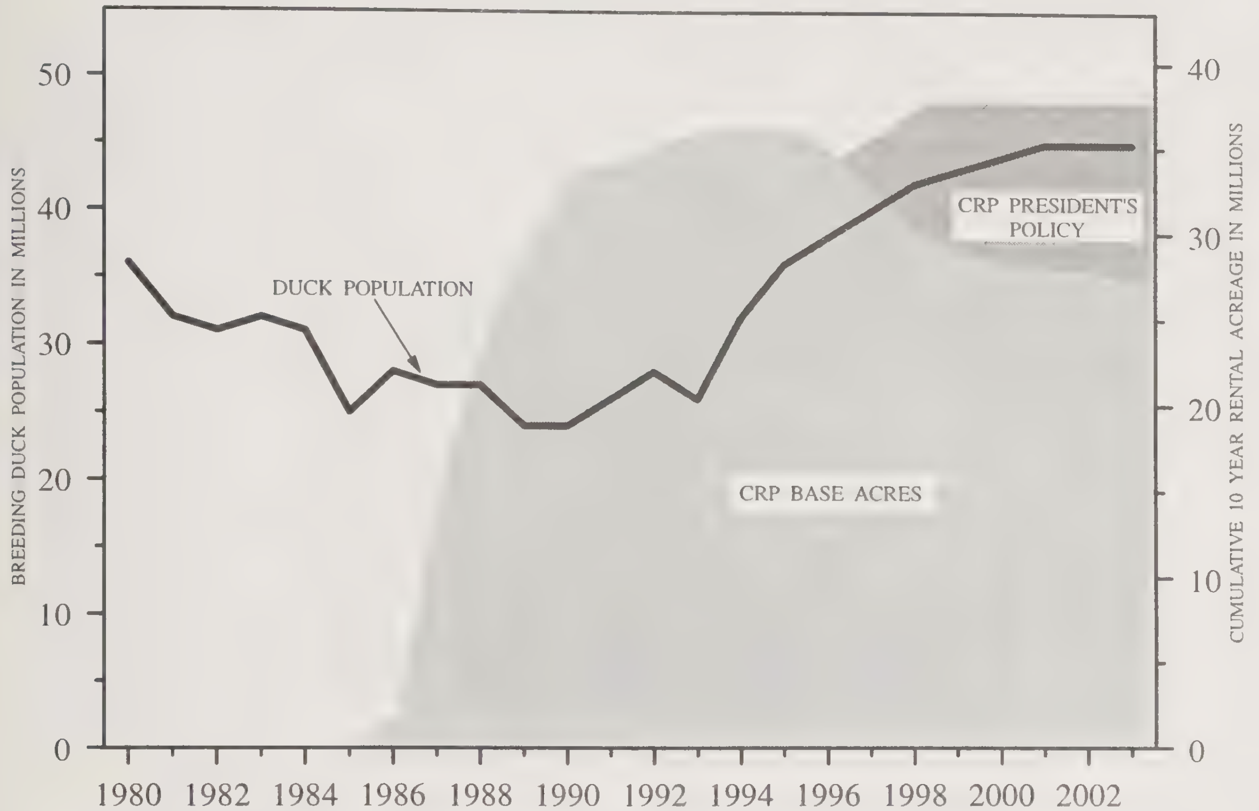
prone) lands from production. Producers receive rental payments for 10 years, after which they can bring the lands back into production. The CRP has 36.4 million acres enrolled, with the remaining 1.6 million acres proposed in the budget for sign-up in 1997, in order to reach the legal target of 38 million acres. In December 1994, the Administration also proposed that farmers have the option of extending expiring contracts. Contracts for around 15 million acres expire in 1996.

The CRP's benefits include less erosion and better water quality. In addition, the CRP's wildlife benefits have been overwhelming: wild duck populations fell between 35 and 50 percent in the 1970s and 1980s, but these populations bounced back with a 38 percent increase from the 1980s to the mid-1990s largely due to the CRP (see Chart 9–5).

Superfund: EPA's Superfund program cleaned up another 68 sites in 1995, exceeding its 1995 target of 65 and bringing to 346 the total number cleaned up through 1995 (see Chart 9–6). In the past four years, the program has, on average, cleaned up more sites each year than in its entire first decade. By the end of 1995, construction was completed or initiated at nearly 800 National Priority List (NPL) sites, well over half the sites on the list. With funding at the President's requested level, EPA would remain on course to achieve its target of 650 construction completions by the year 2000.

Nevertheless, Superfund has been criticized for costing too much and accomplishing too little. The Administration has worked to develop and propose legislative reforms to fundamentally change the way Superfund operates. While awaiting Congressional action on Superfund reauthorization, EPA has redirected the program in the past two years with "common sense" administrative reforms to increase fairness, cut cleanup and transaction costs, and encourage economic redevel-

Chart 9-5. CONSERVATION RESERVE PROGRAM
(Acres Conserved and Wildlife Benefits)



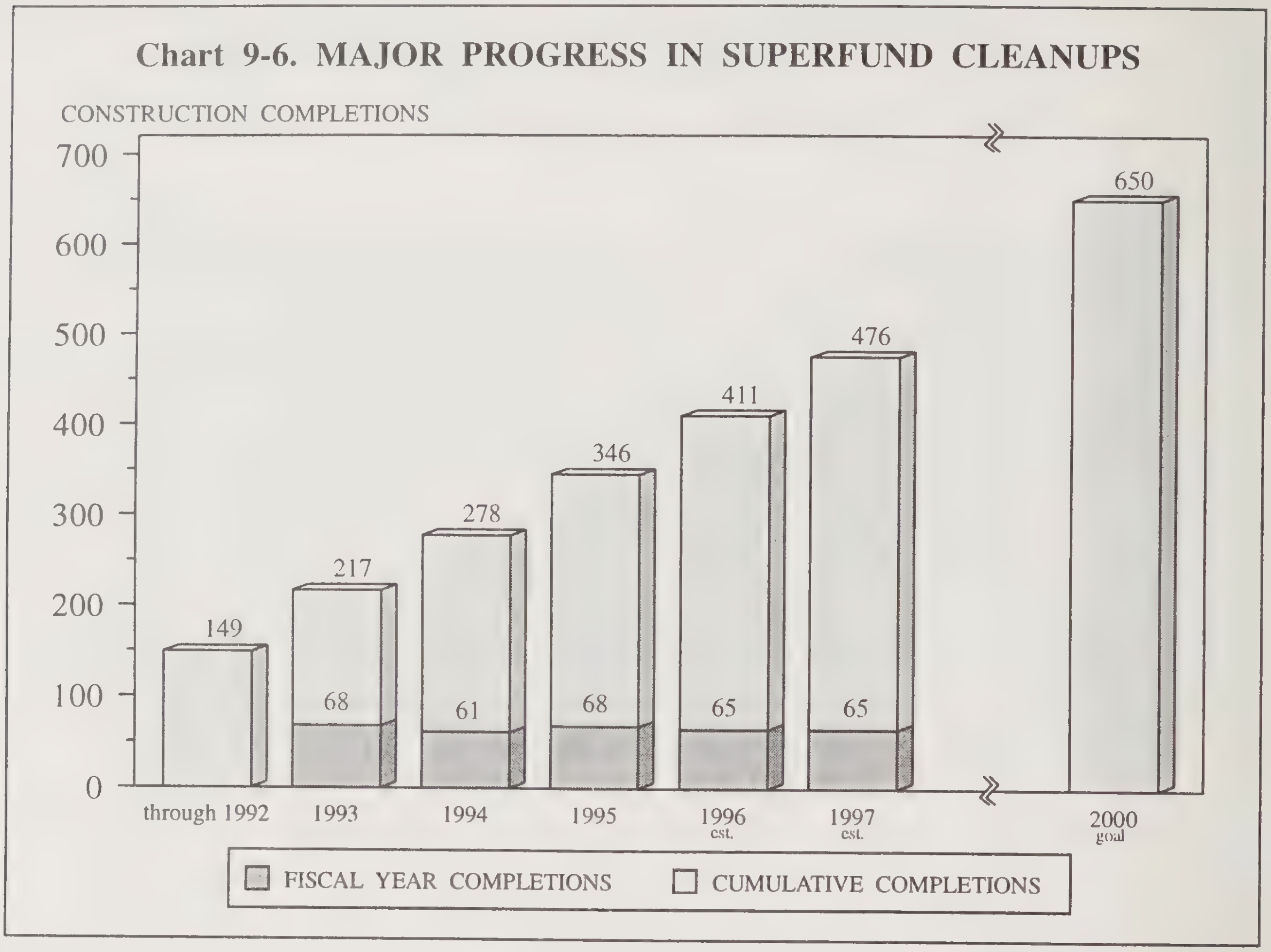
opment. The budget includes $1.4 billion, an $81 million increase over 1996, to continue progress in Superfund.

Brownfields: The current Superfund law, which extends liability to both past and prospective owners of contaminated sites, can depress the market value of older industrial sites and diminish the attractiveness of investing in these "brownfield" areas. The President proposes to offer new purchasers and other businesses a targeted tax incentive to recover the cost of a brownfield cleanup in distressed communities over a shorter time period. This initiative would spur the private sector to create jobs, return land to productive use, and clean up the environment in our communities.

In addition, the budget proposes $25 million to expand and complement EPA's Brownfields Economic Redevelopment Initiative. Of that, EPA would use $5 million to award another 25 brownfield pilot projects to stimulate environmental cleanup through economic redevelopment, bringing the total number of pilots to 75. In addition, the budget includes $20 million for grants to brownfields pilot communities to help finance such cleanups and to work with States to develop their capability to address brownfield cleanup and redevelopment.

Federal Facilities Cleanup and Compliance: The Federal Government faces an enormous challenge in cleaning up Federal facilities contaminated with radioactive or hazardous waste. The Energy Department (DOE) faces the most complex and costly problems, the result of over four decades of research, production, and testing of nuclear weapons. The Defense Department's (DOD) environmental problems include hazardous wastes similar to those at industrial sites and unexploded ordnance at test ranges.

In 1997, DOE will continue to stress risk reduction, management and stabilization of nuclear materials, aggressive site cleanup,



and investment in new cleanup technologies. The budget proposes $5.9 billion for DOE's Office of Environmental Management program—a figure that reflects sizable savings from administrative and contracting reforms and that would support the completion of cleanup of 260 release sites and facilities. The budget also proposes $182 million to fund projects to privatize the treatment of certain types of nuclear waste.

DOD continues to make significant progress in cleanup, compliance/pollution prevention, conservation, and environmental technology. The budget provides $4.7 billion for these activities. To date, 760 military installations and over 2,200 formerly-used defense properties have nearly 15,000 sites where a study or cleanup is underway, while DOD has determined that 9,900 sites require no further cleanup.

Energy Conservation and Efficiency: The budget proposes $715 million for DOE energy conservation and efficiency programs, 17 percent above 1996. It provides for continued implementation of the Climate Change Action Plan to cut greenhouse gas emissions, and continues the Partnership for a New Generation of Vehicles to triple fuel economy by early next century. The Administration is committed to improving the energy efficiency of federally-owned or operated buildings. DOD, DOE, the Veterans Affairs Department, and the General Services Administration have made significant progress in cutting energy consumption and saving taxpayer money, and the budget proposes $289 million to continue the progress.

Solar and Renewable Energy: The budget funds DOE solar and renewable energy activities at $363 million, 32 percent above 1996. This funding continues the Administration's strong support for research and development to reduce manufacturing costs in photovoltaics and solar thermal technologies, promote wind power, and spur a wider use of biofuels.

Multilateral and Bilateral Environmental Assistance: The budget proposes a $33 million increase over 1996, to $343 million, for bilateral and multilateral environmental assistance. Bilateral assistance includes U.S. Agency for International Development (AID) activities to address climate change, biodiversity, and sustainable agriculture in developing countries. Multilateral assistance funds U.S. voluntary contributions to the U.N. environmental system and other international organizations to address various international environmental activities.

Global Environment Facility: U.S. participation in the Global Environment Facility (GEF) is a cornerstone of U.S. foreign and environmental policy. The GEF has become the world's leading institution for protecting the global environment and avoiding economic disruption from climate change, massive extinction of valuable species, and dramatic collapse of the ocean's fish population. The $100 million budget request meets the Nation's annual pledge to the four-year (1995–1998) funding program for the GEF—the United States pledged 20 percent ($400 million) of the GEF's resources, a lower proportion than in most multilateral fora. Meeting this commitment is vital to maintaining U.S. leadership of the program.

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10. PROMOTING SCIENCE AND TECHNOLOGY

> *American history clearly demonstrates the importance of American leadership in science and technology to the future of our Nation. Investments in science and technology drive economic growth, generate new knowledge, create new jobs, build new industries, ensure sustained national security, and improve our quality of life.*
>
> President Clinton
> November 1995

Technological innovation has accounted for at least half of the Nation's productivity growth in the last 50 years. We enjoy the fruits of this innovation every day in the many technologies we have come to depend on for our way of life, including lasers, computers, x-rays, teflon, weather and communication satellites, jet aircraft, microwave ovens, solar-electric cells, and human insulin. The development of these technologies has created new industries and millions of high-skilled, high-wage American jobs. Thus, technology has become a major engine of economic growth, a significant contributor to our national security, a generator of new knowledge, and a critical tool in protecting our health and environment.

Because our investments in science and technology (S&T) have paid such rich dividends, sustaining U.S. leadership in S&T is a cornerstone of the President's vision for America. The budget maintains vital investments in S&T by adding funds for basic research in health sciences at the National Institutes of Health, for basic research and education at the National Science Foundation, for research at other agencies that depend on S&T for their missions, and for cooperative projects with industry and universities.

As the President has said, we need to balance the budget in a way that boosts economic growth and encourages public and private investment in innovative S&T. This budget continues the record of S&T investment and economic stimulation that has helped to keep the economy strong over the last three years.

The Federal Role in S&T

The post-Cold War era is one of intense global economic competition. Our country also faces new national security challenges, including threats from environmental degradation, emerging infectious diseases, the proliferation of nuclear and biological weapons, and regional conflicts.

Thus, the Federal Government has an indispensable role to play in investing in S&T—a role critical to the country's economy, national security, environment, health, and other social needs. This is especially true when the risk is too great for individual companies to make the needed investment, or when the public benefit is large but private return is small. Our Nation also must support a balanced mix of S&T investments (i.e., basic research, applied research, and technology development), since the steps involved in technological innovation are so profoundly interwoven.

The Administration has initiated or expanded public-private partnerships to spur innovations with broad economic impact. These partnerships have traditionally served our Nation well, not only in building transportation infrastructure (e.g., highways, airways, harbors, and railroads), but in nurturing new types of technological infrastructure (e.g., information highways, global positioning satellites, and environmental monitoring sys-

tems). The partnerships enable the private sector to translate new knowledge into novel technologies that benefit its bottom line and society at large.

Science and Technology Highlights

Under the 1996 budget resolution, Congress would cut support to S&T programs by about 30 percent by the year 2002.[1] At a time when increased global competition threatens U.S. markets, and when Japan has proposed doubling its investments in S&T, the President believes we cannot afford such deep cuts. In his budget negotiations with the bipartisan congressional leadership, the President has repeatedly reaffirmed his commitment to economic prosperity, education, health, the environment, and national security. S&T investments are critical to these goals. The budget fulfills his commitments by:

Increasing Total Funding for Science and Technology: This budget marks the fourth straight year that the President has proposed increases in S&T investments. Table 10–1 shows the proposal to invest roughly $73 billion in research and development (R&D), over $1 billion more than in 1996.[2] In keeping with previous efforts, the budget also provides an increasing share for civilian R&D investments, with those investments at 47 percent of the total. Table 10–2 lists selected S&T highlights.

Boosting Funding for Basic Research and Health Research: The budget proposes $14 billion for basic research, a $278 million increase over 1996, including a four percent increase for the National Science Foundation. Given the importance of basic and applied health science research, the budget boosts funding at the National Institutes of Health by four percent.

Strengthening University-based Research: University-based research is key to America's future; simultaneously, it provides new knowledge and new technology, and it trains the next generation of scientists and engineers. The budget proposes $13 billion for university-based research, an increase of $155 million over 1996. It also proposes $22 billion for merit-reviewed research (six percent more than in 1996), which comprises 31 percent of the R&D budget.

Investing in Innovation to Create New Jobs and Industries: Under this Administration, many of the new jobs have been high-tech, high-wage jobs in industries like biotechnology and computing—jobs that didn't exist a decade or two ago. The budget maintains a strong investment in technology to foster these high-priority civilian S&T industries and jobs. Funding continues or expands for high-performance computing research; for the Advanced Technology Program, which works with industry to develop high-risk, high-payoff technologies; for a Manufacturing Extension Program to help small business battle foreign competition by adopting modern technologies and production techniques; and for other programs.

Increasing Environmental Research: S&T investments are critical for enhancing environmental quality. While we are making progress on many pollution fronts, emerging global environmental problems pose new risks. The budget maintains vital research to provide safe food, clean air, and pure water. It supports research into new environmental technologies to provide better environmental protection at lower cost, while generating jobs and exports. It supports programs to increase energy efficiency and the development of renewable energy sources that cut demand for foreign oil, and partnerships with industry to develop cars that use less fuel. The budget invests in programs that preserve biological diversity and help us understand and prepare for changing climate conditions and natural disasters. These investments also provide a sound scientific basis for rational rule-making on, and the cost-effective implementation of, environmental regulations. (For more details, see Chapter 9.)

[1] American Association for the Advancement of Science, 1995.

[2] Research and development (R&D) is a widely-accepted measure of investment in S&T.

Table 10–1. RESEARCH AND DEVELOPMENT INVESTMENTS

(Budget authority, dollar amounts in millions)

	1993 Actual	1995 Actual	1996 Estimate [1]	1997 Proposed	Dollar Change: 1996 to 1997	Percent Change: 1996 to 1997
By Agency:						
Defense	38,898	35,350	35,428	35,523	+95	+*%
Health and Human Services	10,472	11,519	12,118	12,621	+503	+4%
National Aeronautics and Space Administration	8,873	9,390	9,334	9,359	+25	+*%
Energy	6,896	6,481	6,689	6,269	–420	–6%
National Science Foundation	2,012	2,431	2,430	2,516	+86	+4%
Agriculture	1,467	1,542	1,479	1,499	+20	+1%
Commerce	793	1,164	1,086	1,260	+174	+16%
Interior	649	668	622	582	–40	–6%
Transportation	613	667	622	679	+57	+9%
EPA	511	554	508	585	+77	+15%
Other	1,308	1,315	1,134	[2] 1,786	+652	+57%
Total	**72,492**	**71,081**	**71,450**	**72,679**	**+1,229**	**+2%**
By R&D Theme:						
Basic research	13,362	13,805	14,059	14,337	+278	+2%
Applied research	13,608	14,273	14,251	14,862	+611	+4%
Development	42,795	41,118	41,238	41,042	–196	–*%
Equipment	....	743	701	696	–5	–1%
Facilities	2,727	1,142	1,201	1,742	+541	+45%
Total	**72,492**	**71,081**	**71,450**	**72,679**	**+1,229**	**+2%**
By Civilian Theme:						
Basic research	11,951	12,629	12,940	13,181	+241	+2%
Applied research	9,130	10,566	10,560	11,135	+575	+5%
Development	7,269	8,488	8,297	8,096	–201	–2%
Equipment	....	599	554	546	–8	–1%
Facilities	1,979	975	996	1,446	+450	+45%
Subtotal	30,329	33,257	33,347	34,404	+1,057	+3%
By Defense Theme:						
Basic research	1,411	1,176	1,119	1,156	+37	+3%
Applied research	4,478	3,707	3,691	3,727	+36	+1%
Development	35,526	32,316	32,612	32,615	+3	+*%
Equipment	....	458	476	481	+5	+1%
Facilities	748	167	205	296	+91	+44%
Subtotal	42,163	37,824	38,103	38,275	+172	+*%
By R&D Share:						
Defense	42,163	37,824	38,103	38,275	+172	+*%
Civilian	30,329	33,257	33,347	34,404	+1,057	+3%
Total	**72,492**	**71,081**	**71,450**	**72,679**	**+1,229**	**+2%**
Percent civilian	42%	47%	47%	47%	NA	NA
R&D support to universities	11,674	12,445	12,573	12,728	+155	+1%
Merit (peer) reviewed R&D programs	....	21,895	21,160	22,406	+1,246	+6%

NA = Not applicable.

* Less than $500 thousand or 0.5 percent.

[1] Includes Administration's proposed adjustments to 1996 continuing resolution levels.

[2] Includes total funding for several projects as part of a Government-wide transition to upfront funding of fixed assets.

Table 10–2. SELECTED SCIENCE AND TECHNOLOGY HIGHLIGHTS

(Budget authority, dollar amounts in millions)

	1993 Actual	1995 Actual	1996 Estimate[1]	1997 Proposed	Dollar Change: 1996 to 1997	Percent Change: 1996 to 1997
National Science Foundation	2,734	3,229	3,220	3,325	+105	+3%
National Institutes of Health	10,325	11,240	11,939	12,406	+467	+4%
Environmental Protection Agency:						
Environmental technology initiative	....	72	72	72	+*	+*%
Science to achieve results	....	48	95	115	+20	+21%
National Aeronautics and Space Administration:						
International space station	2,262	2,113	2,144	2,149	+5	+*%
Mission to Planet Earth	917	1,344	1,289	1,402	+113	+9%
New millennium initiative	67	436	569	549	–20	–4%
Reusable launch vehicle technology program	0	129	159	266	+107	+67%
Aeronautics inititiative	129	347	415	442	+27	+7%
Department of Energy:						
Stockpile stewardship	1,799	1,520	1,567	1,648	+81	+5%
Science users facilities initiative	....	....	100	100	+*	+*
Energy efficiency and pollution preventions R&D	350	447	417	548	+131	+31%
Renewable energy R&D	257	363	275	363	+88	+32%
Fusion energy science program	340	361	244	264	+20	+8%
Department of Commerce:						
NIST—Advanced technology program	68	341	300	345	+45	+15%
NIST—Manufacturing extension partners	18	74	100	105	+5	+5%
NIST—Intramural research	193	247	259	271	+12	+5%
NOAA—Weather service modernization	474	576	604	742	+138	+23%
NTIA—National information infrastructure	....	42	54	59	+5	+9%
Department of Defense dual use application program	....	....	....	250	+250	+*
USDA national research initiative	98	101	97	130	+33	+34%
Department of Transportation intelligent transportation system	155	217	208	337	+129	+62%
National Science and Technology Council initiatives:						
High performance computing and communications:[2]						
Defense	298	375	315	337	+22	+7%
Health and Human Services	47	68	81	87	+6	+7%
National Aeronautics and Space Administration	82	131	116	104	–12	–10%
Energy	100	119	121	125	+4	+3%
National Science Foundation	233	297	291	280	–11	–4%
Commerce	12	30	31	34	+3	+10%
Environmental Protection Agency	....	12	12	6	–6	–48%
Transportation	....	24	23	43	+20	+87%
Education	....	16	12	18	+6	+50%
Veterans	....	24	21	16	–5	–24%
Subtotal	772	1,096	1,023	1,050	+28	+3%
U.S. global change research program:[3]						
Health and Human Services	1	4	4	4	+*	+*
National Aeronautics and Space Administration	917	1,308	1,250	1,375	+125	+10%
Energy	118	119	111	112	+2	+1%
National Science Foundation	124	169	163	170	+7	+4%
Agriculture	55	60	56	59	+3	+5%
Commerce	66	57	60	69	+9	+15%
Interior	38	30	29	29	+*	+*
Transportation	....	6	6	7	+1	+17%
Environmental Protection Agency	....	23	25	19	–6	–24%
Smithsonian	....	7	7	7	+*	+*
Tennesse Valley Authority	....	2	1	1	+*	+*
Subtotal	1,319	1,785	1,712	1,852	+141	+8%
Environment and natural resources	....	5,365	5,186	5,448	+262	+5%
Partnership for a new generation of vehicles	....	223	241	288	+47	+20%
Construction and building	....	168	162	194	+32	+20%
Educational technology	....	464	397	434	+37	+9%

* Less than $500 thousand or 0.5 percent.

[1] Includes Administration's proposed adjustments to 1996 continuing resolution levels.

[2] Listing by agency required by law.

[3] Listing by agency required by law, subset of Environment and Natural Resources.

Investing in a 21st-Century Education: Information technology has revolutionized America's businesses, but largely bypassed its classrooms. We must use this new technology to help children prepare for the challenges of the 21st Century. Building on the experience of earlier Federal investment in educational technology, the President is proposing a new Technology Literacy Challenge Fund to encourage States and communities, working with private sector partners, to develop and implement plans for adopting these technologies. (For more details, see Chapter 8.)

Enhancing Programs to Keep Our Nation Secure: While the budget continues investments in defense research that ensure our strong, future military capabilities, it also fosters key programs to: keep nuclear weapons out of the hands of terrorists; achieve a Comprehensive Test Ban Treaty by using science-based techniques to ensure the safety and reliability of our nuclear weapons stockpiles; and bolster strong international S&T cooperation to improve global stability. The budget also supports the Dual Use Applications program, which puts the technical know-how and economies of scale from commercial industry at the service of national defense.

Agency Highlights

National Science Foundation (NSF): The NSF promotes science in service to society, primarily by awarding competitively-selected grants for research and education. Because most NSF awards go to our Nation's colleges and universities, they serve to both produce knowledge and train the next generation of scientists and engineers. The budget proposes $3.3 billion for NSF, a more than three percent increase over 1996. Included are funds to address critical health, safety, and environmental impact issues at the Amundsen-Scott Station at the South Pole.

National Institutes of Health (NIH): The budget continues the Administration's commitment to biomedical and behavioral research, which promotes the health and well-being of all Americans. The proposed $12.4 billion for NIH is a $467 million, or four percent, increase over 1996. NIH's highest priority continues to be funding investigator-initiated, peer-reviewed research project grants. The budget includes increases for HIV/AIDS-related research, research into breast cancer and other health concerns of women, minority health initiatives, high performance computing, prevention research, gene therapy, and developmental and reproductive biology. The budget also includes funding for a new NIH Clinical Research Center, which would give NIH a state-of-the-art research facility in which scientists would bring their latest discoveries from the laboratory bench to the patient's bedside.

Environmental Protection Agency (EPA):

Environmental Technology Initiative (ETI): The ETI is a partnership among government, industry, non-governmental organizations, and communities to protect public health and prevent pollution by promoting innovative environmental technologies, both in the United States and abroad. ETI supports regulatory reinvention efforts by allowing companies and communities to comply with environmental regulations by using the most cost-effective technology strategies possible. The budget proposes $72 million for ETI, and a total of $127 million for all of EPA's environmental technology efforts.

Science to Achieve Results (STAR) Program: The budget proposes $115 million (21 percent more than in 1996) for the STAR program, which awards grants on the basis of rigorous peer review by extramural researchers. Under the program, EPA cooperates with NSF and the Energy Department to sponsor joint requests for grant applications.

National Aeronautics and Space Administration (NASA):

International Space Station: The Administration proposes continued funding of the International Space Station at $2.1 billion. In less than two years, NASA will launch the first segments of this ambitious undertaking among the United States, Europe, Japan, Canada, and Russia. NASA and the Russian Space Agency have reconfirmed their commitments to the program and have conducted precursor research on two Space Shuttle flights to the Russian MIR space station, with another seven planned through 1998.

Mission to Planet Earth (MTPE): MTPE is NASA's effort to observe, understand, and predict natural and human-induced changes

to the environment. The budget proposes $1.4 billion for MTPE, nine percent more than in 1996. MTPE programs include the Earth Observing System satellites and information system, the Landsat satellite, and a broad range of scientific research and data analysis activities. NASA is also exploring new ways to obtain environmental data using very small spacecraft and purchasing data sets from industry.

New Millennium Initiative (NMI): The NMI represents a fundamentally new way for NASA to develop and operate robotic space missions. The initiative has transformed space missions from occasional, decade-long, multibillion dollar undertakings to more frequent, cheaper, and exciting projects that have reinvigorated a broad section of the space science community. The budget proposes $549 million to support over 25 missions, either in orbit or under development.

Reusable Launch Vehicle (RLV) Technology Program: The RLV technology program develops technology designed to significantly cut the cost of getting into space. The budget proposes $266 million in preparation for a 1996 decision whether to proceed with the X–33, an experimental flight vehicle whose costs would be shared with industry.

Aeronautics Initiative: The budget proposes $442 million for NASA aeronautics initiatives, a seven percent increase over 1996. These initiatives are partnerships with industry and include advanced subsonic technology and high speed research that may revolutionize the next generation of airplanes.

Department of Energy (DOE):

Stockpile Stewardship: The President's commitment to a Comprehensive Test Ban Treaty (CTBT) is closely linked to the Administration's plan to maintain the safety and reliability of the nuclear weapons stockpile through scientific experiments and computer modeling (i.e., no explosive testing of nuclear weapons). The budget proposes $1.6 billion for these efforts in 1997, a five percent increase over 1996, reflecting the President's commitment to provide sufficient funding for this program next year and over the next decade. Closely linked to this program, the President also is committed to funding a comprehensive R&D program over the next decade to improve treaty monitoring capabilities and operations. President Clinton hopes to complete and sign the CTBT in 1996.

Science User Facilities Initiative: The budget proposes continuing this $100 million initiative begun in 1996 to supplement the operations and capabilities of DOE's major basic research facilities. The 1996 funding has generated an increase in hours of operation ranging from 20 to 100 percent at various DOE facilities; additional staff support for the university, government, and industry researchers; and upgraded and expanded instrumentation.

Energy Efficiency and Pollution Prevention R&D: The budget proposes increases for research on technologies that use natural gas and electricity more efficiently; new manufacturing processes that offer higher productivity as well as lower energy and environmental costs; and innovative transportation and energy conversion processes. The budget proposes $548 million, $131 million more than in 1996.

Renewable Energy R&D: The budget proposes $363 million, $88 million over 1996, for research and technical assistance to foster world-class competitive renewable electricity and fuels industries, including solar thermal and photovoltaic, wind and geothermal power, transportation fuels, and energy from biomass crops and wastes. The development of alternative energy sources represents a critical environmental and economic issue for the next century.

Fusion Energy Sciences Program: DOE continues to support basic research and experimentation in plasma and fusion sciences, with the long-term goal of harnessing fusion as a viable energy source. The budget proposes $264 million, roughly an eight percent increase over 1996, and provides for increased basic research activities, the investigation of tokamak alternatives, and continued operation of the three major U.S. experimental machines. The budget proposes continued U.S. participation in the design of the International Thermonuclear Experimental Reactor.

Department of Commerce (DOC):

National Institute of Standards and Technology (NIST): NIST promotes U.S. economic growth by working with industry to develop and apply technology, measurements, and standards. NIST employs a unique combination of innovative programs. The Advanced Technology Program (ATP) is a rigorously competitive, industry-led, and cost-shared R&D program that fosters technology development, promotes industrial alliances, and creates jobs. The budget proposes $345 million for ATP to support roughly $120 million in new awards and continue commitments to over 500 companies. The Manufacturing Extension Partnership (MEP) provides the Nation's 381,000 smaller manufacturers with technological information and expertise that could improve their operations. The budget proposes $105 million for MEP to support 75 extension centers nationwide. The budget proposes $271 million for NIST laboratories to support important measurement research with industry in areas such as semiconductor metrology, advanced materials, and biotechnology. The budget also proposes $105 million for technology facilities, $80 million of which to construct a new Advanced Technology Laboratory to support cutting-edge research.

National Oceanic and Atmospheric Administration (NOAA) National Weather Service Modernization: The largest modernization in the National Weather Service's history is well underway. The budget requests $742 million to support this multi-year effort to develop and deploy cutting-edge technology, including advanced radar equipment, other ground observing systems, and geostationary and polar-orbiting satellites that will greatly improve the timeliness and accuracy of severe weather and flood warnings.

National Telecommunications and Information Administration (NTIA) National Information Infrastructure (NII) Grants Program: The budget requests $59 million in grants to help develop the NII, which provides the infrastructure that enables computers to connect to one another and to information systems across the country. These grants help fund demonstration projects to show how information technology can improve the delivery of educational, health, and other social services.

Department of Defense (DOD) Dual Use Applications Program: The budget includes $250 million for the Dual Use Applications Program (DUAP). DOD would solicit projects as Government-industry partnerships, and select those that meet military needs. The DUAP is built around a three-year process of transition from technology concept to product demonstration. This new program builds on the Technology Reinvestment Project (TRP), a highly successful experiment that proved DOD could acquire superior commercial technologies for military needs through cost sharing, Government-industry partnerships.

Department of Agriculture (USDA) National Research Initiative: The budget proposes $130 million for the National Research Initiative (NRI), a 34 percent increase over 1996, to support research on a broad range of topics, including integrated pest management, biological control of pests and diseases, human nutrition, plant genome, water quality, food safety, sustainable agriculture, and agricultural systems. NRI is unique in USDA's research portfolio because its awards are based on merit review evaluations by scientific peers.

Department of Transportation Intelligent Transportation System (ITS) Initiative: The budget includes $337 million for the ITS initiative, an increase of 62 percent over 1996. Under ITS, the Administration would work with 75 of the Nation's largest and most congested metropolitan areas to develop and deploy modern information technology for highway and transit systems.

National Science and Technology Council Interagency Initiatives

High Performance Computing and Communications (HPCC): The budget proposes $1 billion, a three percent increase over 1996, for research and development in information and communications technologies that build on HPCC's accomplishments over the past five years.

Environment and Natural Resources: The budget proposes $5.4 billion, a five percent increase over 1996, for research to address environmental issues ranging from local to regional to global, including: air quality, biodiversity and ecosystems, global change, natural disaster reduction, resource use and management, toxic substances/hazardous and solid waste, and water resources/coastal and marine environments. The budget includes $1.9 billion for the U.S. Global Change Research Program, eight percent more than in 1996.

Partnership for a New Generation of Vehicles: The budget proposes $288 million, a $47 million increase over 1996, for research to: 1) develop advanced manufacturing techniques that make it easier to get new automobiles and auto components into the marketplace quickly; 2) use new technologies for near-term improvements in auto efficiency, safety, and emissions; and 3) lead to production prototypes of vehicles that are three times more fuel efficient than today's cars, with no sacrifice in comfort, performance, or price.

Construction and Building: The budget proposes $194 million, a 20 percent increase over 1996, for research to develop better construction technologies to improve the competitive performance of U.S. industry, raise the life cycle performance of buildings, and protect public safety and the environment.

Educational Technology: The budget proposes $434 million, or a nine percent increase over 1996, for research and development on education and training to improve learning in schools, workplaces, and homes. (See, for instance, "Investing in a 21st-Century Education," earlier in this chapter.)

11. ENFORCING THE LAW

> *At last we have begun to find the way to reduce crime, forming community partnerships with local police forces to catch criminals and prevent crime.*
>
> President Clinton
> January 1996

The budget continues the Administration's aggressive efforts to make the streets safer for all Americans and to secure the Nation's borders. It:

- empowers communities to fight crime locally by hiring more police, provides innovative programs to prevent non-violent offenders from becoming hardened criminals, and stresses drug treatment and prevention;
- commits resources to ensure that violent criminals and serious drug traffickers remain behind bars, and proposes that violent juvenile offenders be prosecuted as adults; and
- targets resources to combat illegal immigration—at the border, at worksites, and in prisons—through deterrence, enforcement, and swift deportation.

TAKING BACK OUR STREETS

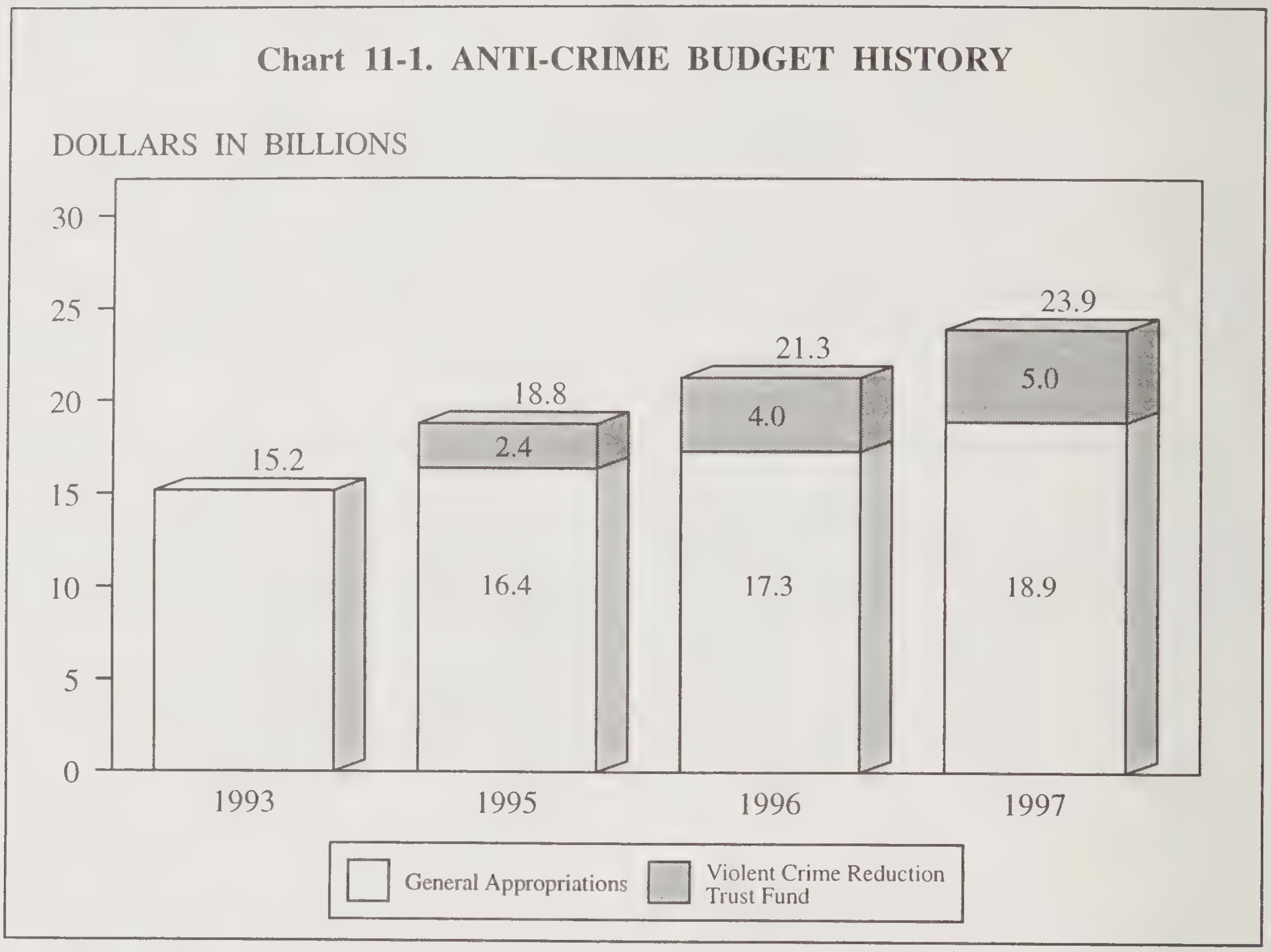
The Administration's continuing efforts to work with communities and local police forces are paying off. In 1994, America's violent crime rate dropped by four percent from 1993, to its lowest level since 1989. Preliminary figures for the first six months of 1995 indicate a further drop in violent crime. While this trend is encouraging, violent crime, especially among juveniles, remains at an intolerable level.

The budget proposes $23.9 billion to control crime, an increase of $2.6 billion over 1996. Chart 11–1 shows law enforcement spending by year. To help make our streets safe and free people from fear, the budget continues initiatives to hire more police in communities of all sizes, enhance State and local law enforcement and crime prevention assistance, and confront gangs, including juvenile gangs, involved in violent crimes.

Community Policing: Community policing is integral to fighting crime and improving the quality of life in the Nation's cities, towns, and rural areas. That's why the President has pledged to put 100,000 new police officers on the street by the year 2000. By the end of 1996, the Community Oriented Policing Services (COPS) initiative will have funded almost 49,000 officers. The budget proposes almost $2 billion to put 19,000 more officers on the street in local communities. COPS provides flexibility to communities, giving local law enforcement agencies the funds to buy sophisticated crime equipment, hire support personnel that allow the deployment of more officers, and implement community policing techniques.

The budget also proposes $25 million to give police officers advanced education and training. The Police Corps grant program would give educational assistance to students with a sincere interest in law enforcement—scholarship recipients would have to make a four-year law enforcement service obligation. The Police Scholarship program would give scholarships to individuals now working as police officers. These two programs would help enhance State and local law enforcement recruitment, retention, and education.

State and Local Assistance: The Violent Crime Control and Law Enforcement Act of 1994 was designed to provide a balance between enforcement and prevention programs. The Violent Crime Reduction Trust Fund (VCRTF) provides $5 billion in 1997 toward programs authorized in the 1994 crime law.



The President's VCRTF request includes $3.6 billion for State and local law enforcement and $0.5 billion for prevention programs (see Table 11–1). Along with COPS, the VCRTF funds grants for new prisons and prevention programs for violence against women and handgun violence.

Violent Offenders: The Administration seeks to ensure that convicted violent offenders serve at least 85 percent of their sentences behind bars. For this purpose, the budget proposes $630 million in State grants to build new prisons and jail cells under two programs—the Violent Offender Incarceration and Truth in Sentencing programs. The funding includes $170 million to reimburse States for the costs of incarcerating criminal aliens.

Violence Against Women: The budget proposes $250 million to combat gender-based crime. About $180 million would go for programs to investigate, prosecute, and convict those who commit violent crimes against women. The other $70 million would fund programs that prevent rape and the sexual exploitation of runaway, homeless, and street youth.

Brady Handgun Violence Prevention: To date, the 1993 Brady bill, which provides for a waiting period before a gun purchase, already has stopped 60,000 people who are prohibited purchasers from buying guns. To further prevent the sale of firearms to ineligible purchasers, the budget proposes $50 million to help States upgrade their criminal history record-keeping systems and $20 million to create a national instant handgun check system.

Gangs: Clearly, criminal gang violence is among the most difficult challenges facing law enforcement. As gangs become an increasingly powerful and deadly force, the Administration is pursuing a coordinated national strategy to help combat them. The budget proposes a variety of programs to stem violence on the street and in public housing.

Table 11–1. VIOLENT CRIME REDUCTION TRUST FUND SPENDING BY FUNCTION

(Budget authority, in millions of dollars)

	1995 Actual	1996 Estimate[1]	1997 Proposed	Dollar Change: 1995 to 1997	Percent Change: 1995 to 1997
Prevention:					
Violence Against Women	27	180	254	+227	+841%
Drug Courts	12	100	100	+88	+733%
Prison Drug Treatment	....	41	61	+61	NA
Other Prevention Programs	21	19	42	+21	+100%
Subtotal, Prevention	60	340	457	+397	+662%
State and Local Assistance:					
Community Policing (COPS)	1,300	1,803	1,950	+650	+50%
Incarceration of Violent Offenders	25	618	630	+605	+2,420%
Incarceration of Undocumented Criminal Aliens	130	300	330	+200	+154%
Other State and Local Assistance	550	187	659	+109	+20%
Subtotal, State and Local Assistance	2,005	2,908	3,569	+1,564	+78%
Federal Law Enforcement Assistance:					
Department of Justice:					
Immigration	284	381	505	+221	+78%
Other Department of Justice	....	321	344	+344	NA
Department of the Treasury	30	69	90	+60	+200%
Judiciary	....	30	35	+35	NA
Subtotal, Federal Law Enforcement Assistance	314	801	974	+660	+210%
Total, Violent Crime Reduction Trust Fund	**2,379**	**4,049**	**5,000**	**+2,621**	**+110%**

NA = Not applicable.

[1] Includes Administration's proposed adjustments to 1996 continuing resolution levels.

- *Safe Streets:* The budget proposes $117 million, an increase of $2.9 million over 1996, for the Safe Streets program, which blends the efforts of the FBI, other Federal law enforcement agencies, and State and local police departments to investigate street crime and violence.
- *Mobile Enforcement Teams (METS):* The Drug Enforcement Administration provides guidance and other assistance to local police agencies and State and local police departments to disrupt and dismantle the most violent gangs involved in drug trafficking. The budget proposes $20 million for this program, an increase of $5.9 million over 1996.
- *Juveniles:* Juvenile arrests for serious offenses rose 68 percent from 1984 to 1993, partly due to gang violence as groups fought for turf. As a result, the President pledged in his State of the Union address, "I'm directing the FBI and other investigative agencies to target gangs that involve juveniles and violent crime, and to seek authority to prosecute as adults teenagers who maim and kill like adults."

- *One Strike and You're Out:* The President believes that public housing is a privilege, not a right, and that residents who commit crimes and peddle drugs should be immediately evicted. The budget provides $290 million to support anti-drug and anti-crime activities in public housing, including $10 million to implement the President's "one strike and you're out" initiative.

Domestic Terrorism: Though few in number, domestic terrorist groups are a serious threat to the security and safety of the Government and public. The budget provides about $100 million to help Federal law enforcement agencies prevent domestic terrorism, and investigate and prosecute domestic terrorists who commit violent and illegal acts.

Digital Telephony: The Communications Assistance for Law Enforcement Act ensures that law enforcement agencies can conduct court-authorized wiretaps as the Nation converts from analog to digital communications technology. In 1996, the President proposed $100 million to reimburse telecommunications carriers for modifying equipment and services in order to maintain the ability to conduct wiretaps. Congress did not fund the program but, due to its importance, the budget again proposes $100 million.

COMBATING DRUG ABUSE AND DRUG-RELATED CRIME

Drug abuse and drug-related crime cost our society an estimated $67 billion a year[1] and destroy the lives and futures of a major portion of our most precious resource—our youth. Illicit drug trafficking breeds crime and corruption, drug use helps to spread AIDS and other deadly diseases, and addiction erodes our productivity. The effects of drugs and drug-related crime are felt acutely in our communities and on our urban street corners.

The budget proposes $15.1 billion for drug control, an increase of $1.3 billion over 1996. The budget would build on initiatives that began in 1996 by renewing the emphasis on drug law enforcement, interdiction, international programs, and drug treatment and prevention. Table 11–2 shows the funding according to drug control functions.

Drug Law Enforcement: The budget proposes $8.3 billion for domestic drug law enforcement, an increase of $0.7 billion over 1996. The budget boosts Federal law enforcement efforts while targeting new resources to community-based law enforcement and to stopping the flow of illegal drugs at the border.

Table 11–2. DRUG CONTROL FUNDING

(Budget authority, dollar amounts in millions)

	1995 Actual	1996 Estimate[1]	1997 Proposed	Dollar Change: 1995 to 1997	Percent Change: 1995 to 1997
Domestic Law Enforcement	6,983	7,553	8,255	+1,272	+18%
Demand Reduction	4,692	4,572	4,971	+279	+6%
Interdiction	1,280	1,339	1,437	+157	+12%
International	296	320	401	+105	+35%
Total, Drug Control Funding	**13,251**	**13,784**	**15,064**	**+1,813**	**+14%**

[1] Includes Administration's proposed adjustments to 1996 continuing resolution levels.

[1] "Substance Abuse: The Nation's Number One Health Problem," *Key Indicators for Policy,* Institute for Health Policy, Brandeis University (1993).

The Federal role continues to focus on providing leadership and training, fostering intergovernmental cooperation, and providing incentives to States and localities to adopt successful drug control methods.

Interdiction and International Programs: The Administration has an integrated international strategy that has made it harder for traffickers to get their product into the United States for sale. The budget proposes $1.8 billion, $100 million more than in 1996, for these programs.

- *Source Country Efforts:* Internationally, the United States is focusing on not just interdiction, but also on disrupting the drug leadership and its production, marketing, and money-laundering infrastructure. This requires that we closely cooperate with narcotics source and transit countries, and hold our allies to a high standard of action.

Drug Treatment: The budget proposes $2.9 billion from all sources to treat drug abuse, $200 million more than in 1996.

To rid America of drug addiction, the Administration's top priority is treating hard-core users. The following programs reflect the Administration's commitment to address drug abuse where the battle is toughest—in the streets, jails, and urban and rural drug markets of America.

- *Drug Testing:* To break the cycle of crime and drugs, the budget proposes $42 million for the Administration's criminal justice drug testing initiative. Under it, all those arrested for Federal crimes would be drug tested before being released back into the community.
- *Drug Courts:* Drug courts, for which the budget proposes $100 million, offer an alternative for non-violent offenders who are willing to participate in, and would benefit from, rehabilitative drug treatment. Drug court programs rely on sanctions, such as incarceration and increased drug-testing and supervision, to encourage treatment.
- *Substance Abuse Treatment:* The budget proposes $1.2 billion, a $67 million increase over 1996, to support State substance abuse activities, which help target resources to local hard-core user populations. In addition, the budget helps restore funding for substance abuse demonstration programs to $352 million, a $140 million increase over 1996, providing treatment and prevention services for pregnant women, high-risk youth, and other under-served Americans.

Community-Based Prevention: The budget proposes $1.6 billion for drug prevention programs, an increase of $200 million over 1996. After significant and steady declines through the 1980s, teenage drug use is rising and anti-drug attitudes are softening. Drug glamorization in popular culture, especially rock music, and the highly publicized debate about drug legalization have fueled these reversals. To help stem these trends, the budget puts a major focus on keeping America's youth drug-free.

- *The Safe and Drug Free Schools and Communities Program:* The Safe and Drug Free Schools and Communities program provides an important foundation for the Nation's drug and violence prevention efforts, helping school districts implement anti-drug and anti-violence programs in the schools. The program now serves 39 million students in 97 percent of school districts. The budget proposes $540 million, an increase of $74 million over 1995.

SECURING OUR BORDERS AND ENFORCING THE LAW

The President has placed a high priority on controlling our Nation's borders. For too long, insufficient staff, inadequate facilities, and outmoded equipment and technology have permitted uncontrolled movement across the border—over 3.5 million aliens now reside in this country illegally. As a Nation of immigrants, we must welcome those who seek legal entry or refugees who seek protection from harm. As a Nation of laws, however, we must maintain our borders and deter and remove those who enter illegally.

The President has worked with Congress over the last three years to boost funds for the Immigration and Naturalization Service (INS) by 74 percent. The President's Immigration Initiative is a strategic plan

to secure the borders as we work with State and local governments to reduce the effects of illegal immigration. The budget proposes $3.1 billion for INS, $441 million more than in 1996 (see Table 11–3).

Securing the Border: Controlling illegal entry at the border with limited resources has been a continuing challenge for INS—one that the Administration has addressed. Under its plan, Border Patrol staffing would rise by over 85 percent from 1993 to 1998 (to over 7,000 agents). Since 1993, the Administration and Congress have provided funds to hire 1,850 more patrol agents to meet staffing needs at the Nation's busiest Southwest border crossing points. The budget builds on this foundation, adding resources to support 700 more Border Patrol agents, 150 INS inspectors, and 657 Customs personnel to strengthen land ports-of-entry and stem the flow of illegal aliens and drugs (see Chart 11–2).

- *Enforcement Strategy Along the Border:* Since 1993, the Administration has focused on deterrence at the border. This multiyear plan has targeted border enforcement along the Southwest border, starting with the largest illegal crossing areas. Projects such as "Operation Gatekeeper" in San Diego and "Operation Hold-the-Line" in El Paso have helped deter illegal crossing. Local law enforcement officials cite these projects as important factors that helped to reduce crime significantly—upwards of 60 percent—in affected border communities. The budget expands these initiatives to cover the full Southwest border. It adds 850 INS agents and inspectors; proposes $33 million to replace outmoded equipment; and funds new weapons and electronic detection technology.

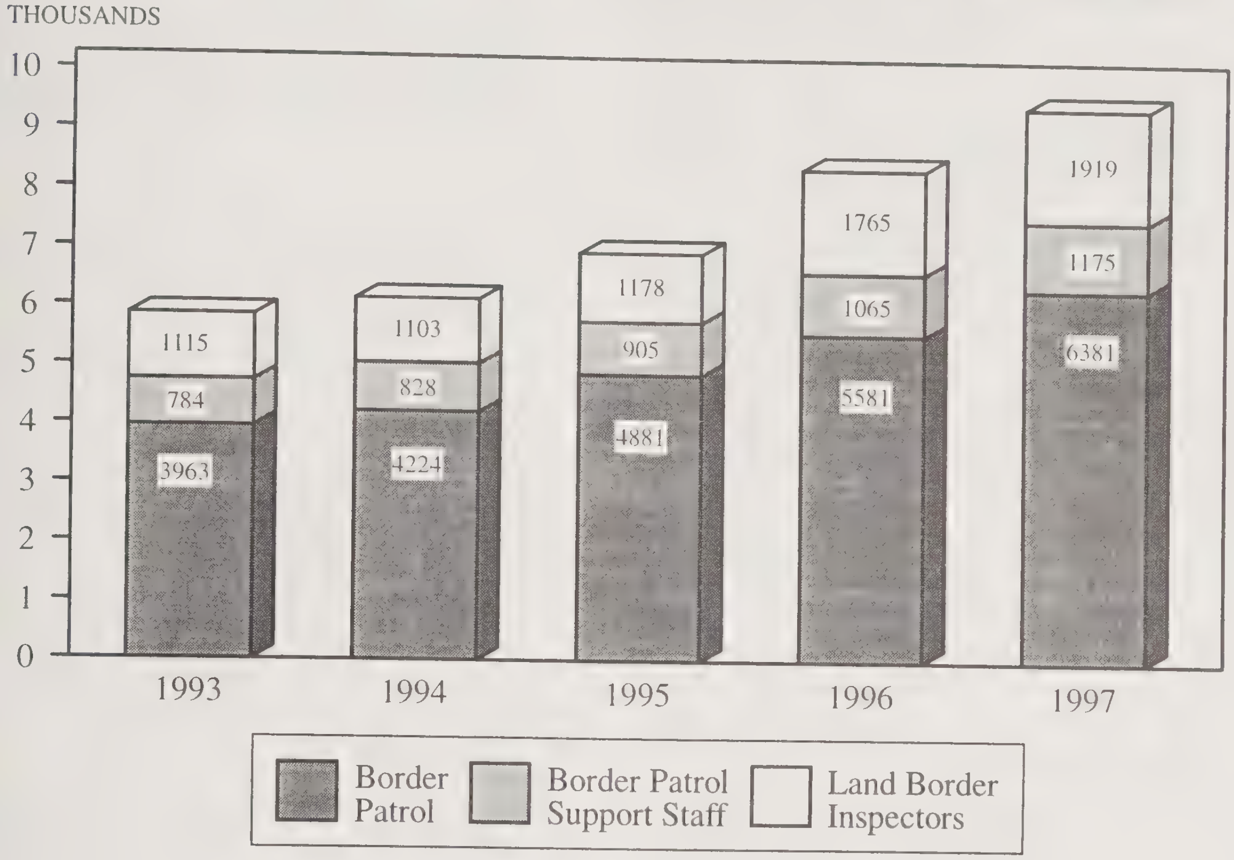
- *Use of Technology:* INS is using advanced biometric technology along the Southwest border to identify and control alien crossings. Its IDENT system uses stored fingerprints and photographs to form a unique identifier with information on aliens, for use in law enforcement. The IDENT system has allowed INS to tap "lookout" and law enforcement criminal data bases and

Table 11–3. IMMIGRATION AND NATURALIZATION SERVICE PROGRAM FUNDING

(Budget authority, dollar amounts in millions)

	1993 Actual	1995 Actual	1996 Estimate	1997 Proposed	Dollar Change: 1993 to 1997	Percent Change: 1993 to 1997
Appropriated Funds:						
Border Patrol	354	442	583	716	+362	+102%
Investigations and Intelligence	142	169	229	279	+136	+96%
Land Border Inspections	83	88	122	152	+69	+83%
Detention and Deportation	161	194	309	401	+240	+149%
Program Support and Construction	227	437	493	599	+373	+164%
Subtotal	967	1,330	1,736	2,147	+1,180	+122%
Fee Collections and Reimbursements:						
Citizenship and Benefits	308	359	539	511	+203	+66%
Air/Sea Inspections and Support	255	362	381	439	+184	+72%
Subtotal	563	721	920	950	+387	+69%
Total, INS	**1,530**	**2,051**	**2,656**	**3,097**	**+1,567**	**+102%**

CHART 11-2. IMMIGRATION AND NATURALIZATION SERVICE BORDER PATROL AND LAND BORDER INSPECTION STAFFING



provide real-time evaluation of illegal crossing trends, enabling INS to quickly redeploy Border Patrol resources. The budget provides $7.8 million to expand and operate the IDENT pilot along the entire Southwest border, and includes another $16.8 million for technology to strengthen Southwest border enforcement.

Reducing the "Job Magnet" for Illegal Entry: Each year, a powerful "job magnet" draws hundreds of thousands of illegal aliens to this country. The Administration has put muscle into the employer sanctions enforcement provisions of the 1986 Immigration Reform and Control Act. Since 1993, the Government has taken over 15,000 enforcement actions, leading to over 25,000 apprehensions and $10.5 million in employer fines. The budget proposes to make it easier for employers to verify employment eligibility, and to expand enforcement efforts against traditional employers of unauthorized labor. In addition, the President signed a path-breaking Executive Order on February 13, 1996 to deny Federal contracts, for up to a year, to firms that employ illegal aliens.

- *Employment Verification:* Over half of the illegal aliens in this country never crossed our borders illegally; rather, they overstayed the terms of their visas. Many of them use fraudulent documents to get jobs. To address this problem, INS developed several pilot employment verification systems to help employers determine the eligibility of potential employees. A telephone verification system in Orange County, California has enlisted over 200 employers—expected to grow to over 1,000 in 1996—who use a quick, effective, and nondiscriminatory system to verify the employment eligibility of new employees. The budget proposes $10 million to expand verification and fraud detection and prevention programs.

- *Worksite Enforcement:* Worksite enforcement and employer sanctions are keys to dampening the lure of illegal employment. The Administration's vigorous enforcement of employment standards denies employers the advantages of hiring highly vulnerable and exploitable illegal immigrants to work at substandard wages and in poor working conditions. Employers who knowingly hire illegal aliens should be held accountable. INS has launched a concentrated enforcement effort, centered in the Midwest and titled "Operation JOBS," that targets employers who routinely flout the law and hire illegal aliens. The joint exercise, drawing on the expertise of INS, the State and Labor Departments, and local officials, has generated 5,555 alien apprehensions and 4,453 removals since it began in January 1995. In addition, it has placed over 3,000 citizens in jobs that illegal aliens previously held. The budget proposes to add 106 investigators and deportation officials to strengthen INS' worksite enforcement efforts.

Swiftly Removing Illegal and Criminal Aliens: The budget expands another part of the President's Immigration Initiative—removing criminal and undocumented aliens. It proposes to enhance INS' ability to identify, locate, and remove criminals and other deportable aliens. With these and other resources, INS would be able to remove 93,000 aliens in 1997, a 50 percent increase over projections for 1996.

- *Port Courts and Deportation:* The budget proposes $4.2 million to expand efforts by INS and the Executive Office of Immigration Review (EOIR) to expand the innovative "port court" concept that began in California. INS has established a port court at the Otay Mesa land border crossing port to expedite immigration hearings for aliens who try to enter the country using counterfeit documents or falsely claiming U.S. citizenship. The budget expands the courts to additional ports of entry in 1997.
- *Institutional Hearing Program:* The criminal alien inmate population represents a growing portion of all inmates in Federal, State, and local prisons and correctional facilities. To expedite deportation and expulsions, INS, in conjunction with EOIR and State correction officials, has launched an innovative, on-site prison hearing program to conduct criminal alien deportation hearings while inmates serve their sentences. The program led to the removal of over 9,500 criminal aliens in 1995. The budget proposes $9.2 million to add courtrooms and staff, and $11.1 million to expand the same concept to aliens incarcerated in local jails.
- *Deportation:* The budget proposes funds to activate 700 new detention beds in Texas and Florida, and to enhance the INS alien transportation system.

Assisting States and Localities with the Costs of Illegal Aliens: Through the State Criminal Alien Assistance Program, the President has provided unprecedented help to reimburse State and local governments for the costs of incarcerating illegal aliens. In 1995, the Federal Government provided $130 million to reimburse 41 States. The budget recommends $500 million to expand reimbursements to State and local governments.

12. PROMOTING TAX FAIRNESS

> *The spotlight should shine on those who make the right choice for themselves, their families, and their communities. I have proposed the Middle Class Bill of Rights [to] give needed tax relief and raise incomes in both the short run and the long run in a way that benefits all of us.*
>
> President Clinton
> January 1995

The budget proposes tax reforms that would promote tax fairness and encourage activities that foster economic growth. It calls for tax cuts that would benefit middle-class families with children, encourage investment in higher education, and promote long-term saving. It helps small business with more favorable treatment of investment, estate tax relief, pension simplification, and health insurance for the self-employed. And it contains targeted tax relief to promote the renewal and environmental cleanup of distressed communities.

The President's tax plan is fiscally responsible. The budget funds the tax relief through cuts in spending and in unnecessary corporate subsidies and other unwarranted tax breaks. In addition, the budget includes a "trigger" mechanism to ensure fiscal discipline by guaranteeing that most of the tax cuts would remain in effect beyond the year 2000 only if the Government is meeting deficit reduction targets.[1]

This chapter provides an overview of the President's tax proposals. For additional details, see Chapter 3 of *Analytical Perspectives.*

[1] The trigger applies to all of the tax relief provisions except pension simplification, estate and gift tax relief, expanded Empowerment Zones and Enterprise Communities, and tax relief for the troops in Bosnia.

Table 12–1. THE PRESIDENT'S TAX PLAN
(In billions of dollars)

	Estimate							Total 1996–2002
	1996	1997	1998	1999	2000	2001	2002	
Middle Class Bill of Rights tax cuts:								
Provide tax credit for dependent children	–1.1	–9.7	–7.0	–8.9	–10.7	–10.7	–10.6	–58.6
Expand individual retirement accounts	....	–1.4	–0.4	–0.7	–1.1	–1.6	–2.5	–7.7
Provide incentive for education and training	–0.2	–5.8	–5.6	–6.2	–7.5	–7.8	–8.0	–41.2
Subtotal, Middle Class Bill of Rights tax cut	**–1.3**	**–17.0**	**–13.0**	**–15.8**	**–19.3**	**–20.0**	**–21.1**	**–107.5**
Additional targeted tax relief:								
Tax relief for small business:								
Increase expensing for small business	....	–0.6	–0.5	–0.6	–0.7	–0.9	–0.8	–4.1
Provide estate tax relief for small business	....	....	–0.2	–0.2	–0.2	–0.2	–0.2	–1.0
Simplify pension plan rules [1]	*	–*	–0.1	–0.3	–0.3	–0.3	–0.3	–1.4
Increase self-employed health deduction	–*	–0.1	–0.1	–0.2	–0.4	–0.5	–0.5	–1.9
Other targeted tax relief:								
Provide tax incentives for distressed areas	–*	–*	–0.3	–0.6	–0.8	–0.9	–0.8	–3.4
Provide tax relief to troops in Bosnia	–*	*	....	....	....	....	....	–*
Subtotal, Additional targeted tax relief	**–***	**–0.7**	**–1.2**	**–1.9**	**–2.4**	**–2.8**	**–2.6**	**–11.8**
Restrict corporate loopholes and other proposals	**–0.3**	**5.7**	**7.4**	**9.5**	**10.3**	**10.9**	**12.6**	**56.2**
Modify earned income tax credit [2]	*	**0.3**	**0.4**	**0.4**	**0.4**	**0.4**	**0.4**	**2.3**

* Less than $50 million.
[1] Net of income offsets.
[2] This proposal reduces outlays by less than $50 million in 1996, and by $0.6 billion in every year from 1997 to 2002.

A Middle Class Tax Cut

The President continues to view tax cuts for middle-income families as an important priority. In 1993, the President worked with the last Congress to enact policies that not only reversed the Nation's trend of steadily rising rising deficits, but also cut taxes for 15 million working families. Building on that progress, the budget proposes to balance the Federal books by the year 2002, but also to ensure that middle-income Americans share the benefits of economic growth.

Specifically, the President again calls for enactment of the Middle Class Bill of Rights that he proposed last year. It would immediately and significantly benefit families with young children, encourage investment in post-secondary education, and promote long-term saving.

The Tax Credit for Dependent Children: Today, most American families with children face significant challenges. Many have two working spouses; others are headed by single parents. All, however, confront their children's economic, educational, and emotional needs.

Economic growth in the last two decades has not generated big gains in after-tax income for most families. In fact, the bottom 60 percent ranked by income lost ground from 1979 to 1992. For more on how Americans at different income levels have fared, see Chapter 2.

The President proposes a non-refundable income tax credit for each dependent child under age 13, a credit that would benefit about 19 million families with 36.6 million dependent children. The credit would be phased in, starting at $300 per child in tax years 1996, 1997, and 1998, and rising to $500 per child in 1999 and beyond. It would be phased out for taxpayers with adjusted gross incomes (AGI) between $60,000 and $75,000. Starting in 2000, the credit and the phase-out range would be indexed for inflation. Working families would first deduct the child credit from their income taxes before deducting the refundable Earned Income Tax Credit—making it easier for them to get the benefit of both credits.

For a two-parent, two-child family with $50,000 of income and $12,500 of itemized deductions, the credit would cut taxes by 25 percent, from $4,005 to $3,005, when fully in place in 1999. Overall, the credit would cut families' taxes by an estimated $58.6 billion from 1996 to 2002.

The Education and Job Training Tax Deduction: Education is vital to making and keeping American workers the world's most productive, but tuition remains a daunting barrier to families of modest means. The President believes that the tax system should better encourage higher education.

The President proposes a deduction of up to $5,000 a year for qualifying education and training expenses in 1996, 1997, and 1998. Beginning in 1999, it rises to $10,000. Qualifying expenses include tuition and fees directly related to a student's enrollment in degree programs and courses to improve job skills. The deduction would be available for the education of a taxpayer, his or her spouse, or dependents.

The deduction would be available whether or not a person itemizes deductions. For taxpayers filing jointly, the deduction would be phased out for returns with modified AGI[2] of $100,000 to $120,000. The phase-out range is $70,000 to $90,000 for other taxpayers. Starting in 2000, these ranges would be indexed for inflation.

Once fully implemented, this tax deduction would cut the taxes of eligible families by up to $2,800. Overall, it would give eligible families $41.2 billion in tax relief from 1996 to 2002, and increase enrollment in higher education and training programs.

Expanded Individual Retirement Accounts (IRAs): The President proposes to expand IRAs in order to provide greater incentives for saving for retirement and other important purposes. Currently, for taxpayers who participate in employer-sponsored retirement plans and file joint returns, the tax code phases out the availability of deductible IRAs between $40,000 and $50,000 of AGI. The President's plan would double this range over time, to $80,000 to $100,000 (and double the range for single taxpayers to between $50,000 and $70,000). The plan also would index for

[2] Modified AGI includes taxable Social Security benefits and certain income earned abroad.

inflation these income limits and the current maximum contribution of $2,000.

Also under this budget, eligible taxpayers could contribute to a "Special IRA" as an alternative to a deductible IRA. Contributions to Special IRAs would not be tax deductible, but distributions of the contributions would be tax-free and—if contributors kept their funds in the account for at least five years—earnings on the contributions would be distributed tax-free as well. Many taxpayers would be eligible to convert existing deductible IRAs to Special IRAs. Also, contributors to both of the IRAs could, at any time, withdraw the funds without penalty to pay for higher education, first-time home purchases, expenses during a period of unemployment, or medical care and nursing home costs.

The expanded eligibility of IRAs would enable many two-earner families to reduce their taxes by as much as $1,120 a year if they make the maximum allowable IRA contributions. From 1996 to 2002, this provision would cut taxes by an estimated $7.7 billion.

Tax Relief for Small Business

Increased Expensing for Small Business: In 1993, the President worked with the last Congress to increase the amount of investment eligible for expensing, which gives needed funds to small businesses that have limited access to capital markets. Expensing also simplifies tax reporting and record-keeping, which are more burdensome for small business. As a result, businesses that invest less than $200,000 a year may deduct $17,500 of investment in the year they place an asset in service, rather than depreciating it over several years. Now, the President proposes to raise this amount to $19,000 in 1996 and continue raising the level so that it reaches $25,000 by the year 2002.

Estate Tax Benefits for Closely-Held Businesses: The budget would cut the burden of estate taxes on farms and other small businesses. It would allow owners of closely-held businesses to defer taxes on $2.5 million of value (up from $1 million under current law), and pay the taxes at a favorable interest rate over 14 years. In addition, the budget would expand the types of businesses eligible for this treatment by making the form of business ownership irrelevant. The budget proposes other changes to cut the administrative burden on taxpayers electing deferral.

Pension Simplification: The President proposes measures to simplify the design and administration of employer-provided pension plans. These measures not only would simplify the tax laws, but would expand pension coverage and stimulate private saving, particularly for employees of small firms.

The President proposes a new plan for small business—the National Employee Savings Trust (NEST). It would replace a series of provisions that limit the contributions of highly-compensated personnel with a simple "safe-harbor" formula, thus removing hurdles that discourage small employers from creating retirement plans for employees. NEST combines the most attractive features of IRA and 401(k) plans, minimizes administrative and compliance costs, and eliminates the need for employer involvement with the Government. NEST is designed to encourage workers of all incomes to save for retirement without complicated forms or calculations.

The budget includes other provisions to simplify pension plans sponsored by businesses of all sizes, as well as tax-exempt employers, multi-employer groups, and the self-employed. These reforms would allow employers to cut administrative costs, and direct more dollars to providing retirement benefits and stimulating retirement savings.

Increased Health Insurance Deduction for the Self-Employed: The Administration has worked hard to expand access to affordable health insurance. One group that faces considerable hurdles is the self-employed. Only 30 percent of their contributions for health insurance are deductible; by contrast, employer-provided insurance is fully exempt from taxes for the employee, and tax deductible for the employer. This budget would increase the deductible share of self-employed health insurance premiums, over time, to 50 percent, benefitting at least three million self-employed people.

Other Targeted Tax Relief

Expanded Empowerment Zones and Enterprise Communities: The President proposes a second round of competition to designate Empowerment Zones and Enterprise Communities, providing over $1 billion in tax benefits through 2002 to these areas. The program promises to mobilize communities to promote business development and create jobs. (For more details, see Chapter 5.)

Brownfields Cleanup: The budget would provide accelerated write-offs of the costs of cleaning up and developing "brownfields"—abandoned, contaminated industrial sites in economically distressed urban and rural areas. (For more details, see Chapter 9.)

Benefits for Troops in Bosnia: The President proposes to extend tax relief that is now available to those in combat operations to U.S. troops involved in the Bosnia peacekeeping operations. While their role is peacekeeping, not combat, the risks and problems of this mission argue for providing a series of benefits, including tax exemptions for certain amounts of pay, the relaxing of filing deadlines, and similar administrative requirements.

Earned Income Tax Credit Targeting and Compliance

The Earned Income Tax Credit (EITC) is a cornerstone of the President's efforts to promote work and self-sufficiency. The budget would maintain the positive work incentives while better targeting the credit and improving compliance. People who are not citizens or not legally authorized to work in this country would no longer be eligible for the EITC.

The budget proposes expedited procedures for handling the failure to provide a correct social security number for the EITC and other tax purposes. It also would restrict eligibility for families with sizable amounts of capital gains and other passive income, and disregard certain losses in computing the EITC phase out. These changes would raise about $2.3 billion from 1996 to 2002.

Loopholes, Corporate Preferences, and Compliance

The budget would reduce or eliminate a series of corporate tax loopholes and preferences that are no longer warranted. Some involve highly specialized financial and accounting techniques. Restricting them would help balance the budget, increase the equity and efficiency of the tax system, and keep corporations focused on productivity and profits, rather than on reducing their taxes.

For example, the plan would:

- Close the loophole that lets individuals accrue gains as Americans and then renounce their citizenship to avoid taxes. The proposal also tightens rules governing foreign trusts with a package of information-reporting and anti-abuse rules directed at sophisticated tax-planning techniques.
- Reform depreciation deductions to better account for expected future income.
- Capture, over time, the indefinite deferrals of income by some large farm corporations.
- Restrict interest deductions for loans taken against corporate-owned life insurance policies, preventing the policies from serving as inappropriate tax-free savings accounts for corporations.
- Require corporations to recognize gains under certain stock sales, rather than treat them as "extraordinary dividends" to avoid corporate taxes.
- Require thrift institutions to account for bad debts in the same way as banks.
- Increase the requirements for corporate tax shelters to register with the Internal Revenue Service (IRS), to help the IRS make more-informed judgments about the merits of the proposed tax treatment.
- Repeal percentage depletion for non-fuel minerals mined on Federal lands that were acquired for nominal amounts under the 1872 Mining Act.

- Deny or defer interest deductions on certain financial instruments that have substantial equity features.
- Restrict interest deductions for corporations that invest in tax-exempt bonds.
- Reform inventory accounting, to reflect costs more accurately.
- Improve compliance by requiring Federal agencies to file information returns for their payments to corporations for services rendered, and by increasing the penalties for not filing correct information.
- Reform the section 936 tax credit (benefiting activities in Puerto Rico and other U.S. possessions), so that it promotes economic activity rather than merely encouraging firms to attribute profits there.

Additional Tax Measures

Finally, the Administration supports revenue-neutral extensions of a range of tax provisions that have recently expired. It also supports revenue-neutral initiatives to promote sensible and equitable administration of the tax laws, including tax simplification initiatives and technical corrections.

MAKING GOVERNMENT WORK

MAKING GOVERNMENT WORK

> *We know big Government does not have all the answers. We know there's not a program for every problem. We know, and we have worked to give the American people a smaller, less bureaucratic Government in Washington. And we have to give the American people one that lives within its means. The era of big Government is over. But we cannot go back to the time when our citizens were left to fend for themselves.*
>
> President Clinton
> January 1996

As the President told the Nation, he and his team have worked hard since 1993 to create a leaner, but not meaner, Federal Government, one that works hand-in-hand with States, localities, businesses, and community and civic associations to manage resources wisely while helping those Americans who cannot help themselves.

The President has delivered.

- Since 1993, the Administration has cut the Federal workforce by over 200,000 employees, creating the smallest Federal workforce in 30 years—and, as a share of the total civilian workforce, the smallest Federal workforce since 1931.
- The Administration is creating a Government that provides better service to the American people by building on the four principles of Vice President Gore's National Performance Review—putting customers first, empowering employees to get results, cutting red tape, and cutting back to basics.
- The Administration is transforming agencies into lean, flexible organizations that emphasize performance: measuring the results of programs, not just the amount of money spent on them; making the Government an effective buyer and manager, especially of complicated information systems; and providing financial accountability for Government spending.

The job has not always been easy. After all, the Administration is trying to transform a Federal Government with vestiges of early 20th Century thinking and organization into one suited for the next century. And, as the Government moves toward a balanced budget, it will have to do as private organizations have done—that is, more with less.

The engines of change are the Federal workers themselves. They are why we can reduce the size of the workforce and still improve service. They are working harder and smarter each and every day.

The President proposes a three percent pay raise for both civilian employees and the military. Once again, the Administration will consult with employee organizations and others before recommending how to allocate the civilian pay raise between locality pay and a national schedule adjustment.

13. IMPROVING GOVERNMENT PERFORMANCE

In past years, debates about Government programs were usually dominated by discussions over how much the Government should spend, rather than on what the spending would accomplish. But for Americans, the debates were largely academic. For well over a decade, the public has been saying that Government simply is not working.

Americans expect and deserve common sense Government—a Government that performs well, uses their tax dollars wisely, views them as valued customers, does not impose excessive burdens, and makes a positive impact on their lives when it addresses such problems as crime and poverty and the challenges of employment and education.

To answer the call, the Administration is making Government smaller, better managed, and more efficient. It is, in fact, creating a Government that "works better and costs less."

A GOVERNMENT THAT WORKS BETTER

Putting Customers First

In 1993, the President issued an Executive Order directing all agencies to develop a comprehensive program of customer surveys, training, standard setting, and benchmarking to enable the Government to deliver service "equal to the best in business." A year later, the National Performance Review (NPR) published the Government's first comprehensive set of customer service standards.

The focus on customer service is bearing fruit, as the NPR outlined in *Putting Customers First.* Consider the following successes:

Social Security Administration's (SSA) Customer Service Line: *Business Week* reported in mid-1995 that an independent survey of some of the Nation's best 1–800 customer service lines ranked SSA's service on top, ahead of companies like L.L. Bean, Federal Express, and Disney. SSA's reputation for solving problems quickly and courteously earned it the highest overall score.

Customs Service—Streamlining Inspections: In Miami, the airlines and Federal agencies formed partnerships to overhaul Customs procedures for international travelers, eliminating three-hour delays and missed connecting flights. Officials from the Customs Service, the Immigration and Naturalization Service (INS), and the Agriculture Department worked with airline officials to reduce clearance times to 45 minutes, on average.

Veterans Affairs Department (VA)—Responding to Customers: Responding to complaints about long waits to see benefits counselors, the VA promised veterans it would cut waiting times to 30 minutes or less. Having met that promise, the VA in the past year has aimed higher; it now promises veterans no more than a 20-minute wait and is meeting that goal 90 percent of the time.

The Administration has used advances in information technology (IT) to serve customers faster, more accurately, and more reliably. IT is not an end in itself, but a means for agencies to work smarter, faster, and better. By making data more easily accessible, the electronic dissemination of information not only better serves current users but expands the potential audience.

Previously, for information about benefits or services, citizens typically had to visit a Federal office during business hours. Now, the Government is increasingly using 1–800 numbers and on-line connections to deliver such information 24 hours a day.

The information that only the Government collects is vital for many reasons. Businesses and markets depend on census data and other economic statistics to make sound and timely decisions, and access to the results of federally-funded scientific and technical research helps increase the competitiveness of U.S. businesses. Federal geographic and climatological information helps farmers to

plan efficiently, local governments to formulate environmental policy, and public safety officials to prepare for natural disasters.

To expand access to the information, the Government is increasingly using the Internet. For instance, those who rely on economic and social data will soon find it in the Economic and Social Statistics Briefing Room on the White House home page (http://www.whitehouse.gov/WH/html/briefroom.html). Other examples include:

- *U.S. Business Advisor Web Site (http://www.business.gov).* In February 1996, the Vice President dedicated the opening of this new form of virtual Government agency, which gives businesses one-stop access to all Federal agencies that assist or regulate business.
- *Expand Deployment of Technology in Schools (http://www.ed.gov/prog_info/ERIC/index.html).* This Education Department on-line information service gives teachers, parents, and students a personal touch through trained specialists available to help them search for information.
- *Modernize Tax Systems (http://www.irs.ustreas.gov).* This Internal Revenue Service web site offers electronic versions of the 500 most frequently used tax forms and instruction booklets. In the first half of April 1995, Americans downloaded over 200,000 tax forms and booklets; the day that taxes were due, they downloaded nearly 20,000 forms.

Also to improve customer service, the Administration is encouraging a wider use of electronic payments between citizens and government.

The Federal Government is making more and more payments electronically. In 1996, taxpayers will be able to receive their tax refunds electronically. And as part of the Federal-State Electronic Benefit Transfer (EBT), more beneficiaries of Social Security, Food Stamps, and other programs soon will be able to receive electronic payments.

The Government makes payments to over 90 percent of Federal employees and retirees through direct deposit, and pays vendors through the Government-wide small purchase card and Government travel card. The Administration and Congress are developing legislation to mandate that, by 1999, the Government make all Federal payments electronically. Chart 13–1 shows the trend for paper checks and electronic payments and, assuming enactment of the bill, projections to 2002.

These efforts to improve customer service and Government performance are beginning to pay off. In 1995, six Federal organizations each received one of the 15 prestigious Innovations in American Government Award, sponsored by the Ford Foundation and Harvard University's John F. Kennedy School of Government. Winners received $100,000 grants to foster innovation.

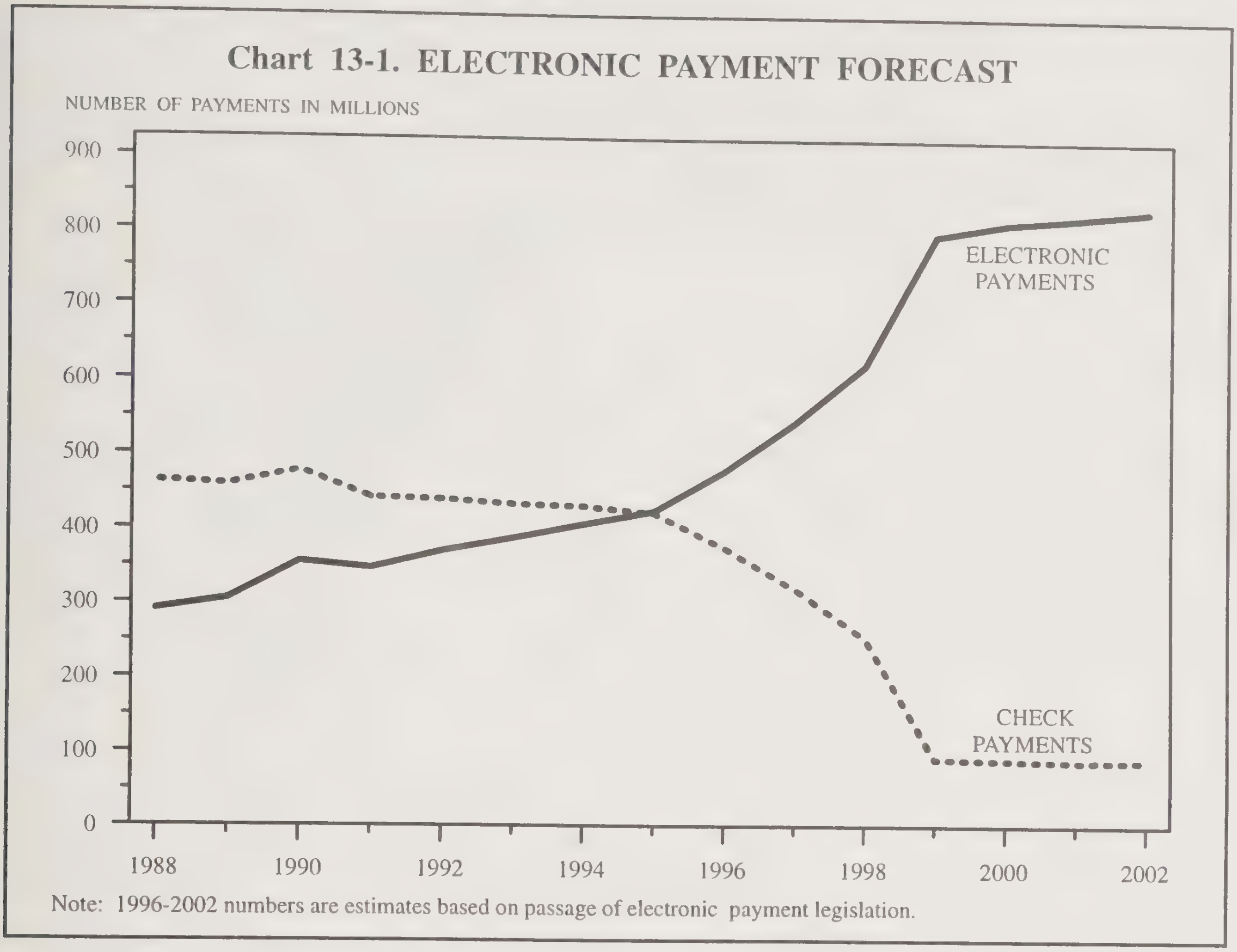
The winners included:

- The Interior Department's Bureau of Reclamation, which transformed itself from a "dam-building agency" into a leading water resource management bureau.
- The Defense Logistics Agency's Defense Personnel Support Center in Philadelphia, which connects consumers with suppliers of food, clothing, and medicine. The center replaced a cumbersome stockpile system with electronic ordering technology.
- INS' Operations Jobs Project in the Midwest, which formed partnerships with businesses to help detect illegal alien workers and replace them with unemployed citizens.

A GOVERNMENT THAT COSTS LESS

Streamlining the Government

Americans want a smaller Government, and the Administration is creating one. Starting with the NPR's report of September 1993, *From Red Tape to Results,* and continuing a year later in the Federal Workforce Restructuring Act, the President and Congress agreed to cut 272,900 full-time equivalent (FTE) personnel by the end of this decade—that is, 12 percent in six years. (An FTE is not necessarily synonymous with an employee. Put simply, one full-time employee counts as one FTE, or two employees who each work half-time count as one FTE.)



The Administration is ahead of schedule. It has cut the Federal civilian workforce by 9.8 percent, or by over 200,000 employees, out of 2.2 million in January 1993.[1] We now have the smallest Federal workforce in 30 years (see Chart 13–2) and, as a share of the Nation's total workforce, the smallest since 1931.

Just as important, virtually all departments and major agencies are streamlining their workforces (see Chart 13–3). Agencies with the largest FTE cuts from 1993 to 1995, as a share of their workforce, are the Office of Personnel Management (OPM), at 32 percent; the General Services Administration (GSA), at 18 percent; and the National Aeronautics and Space Administration (NASA), at 13 percent.

[1] The figure of over 200,000 refers to the latest count of actual employees. It corresponds to a reduction of 185,000 FTEs, or 8.6 percent, from January 1993 to September 30, 1995.

Restructuring Agencies

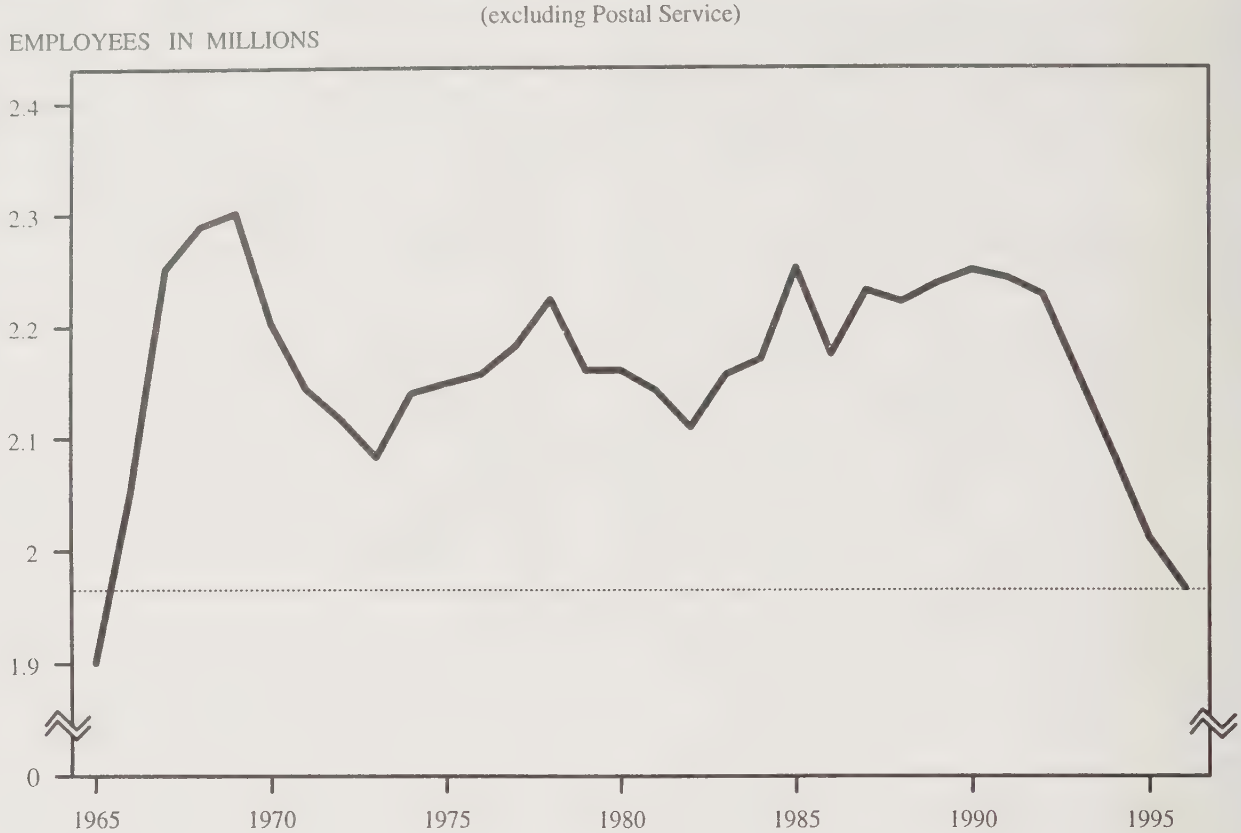
A smaller Government is not an end in itself. The Government must change the way it operates.

In place of the highly centralized, inflexible organizations of yesterday that focused on process, the Administration is creating decentralized management structures within agencies to focus on results. In the past three years, agencies themselves have cut the number of their supervisory personnel by over 45,000, or 23 percent of the overall cut in employees. The President's Management Council has led efforts to restructure and eliminate unnecessary agency field offices. In many instances, agencies are consolidating their operations, allowing them to close small, inefficient field offices in some places while strengthening the services they provide to customers.

NASA and OPM are two of the agencies that are restructuring.

Chart 13-2. EXECUTIVE BRANCH CIVILIAN EMPLOYMENT, 1965 - 1996

(excluding Postal Service)



Note: Data for 1965 - 1995 is end-of-year count. 1996 data is as of December 1995.

NASA: Nearly 40 years ago, Congress created NASA and gave it nearly unlimited resources to win the "space race." Today, NASA has launched a major restructuring to do more with less. Without canceling major programs, NASA is cutting its budget needs from 1995 through the year 2000 by 36 percent, and is boosting its productivity by 40 percent over the same period. NASA also is cutting the cost of its spacecraft and increasing the number of launches a year.

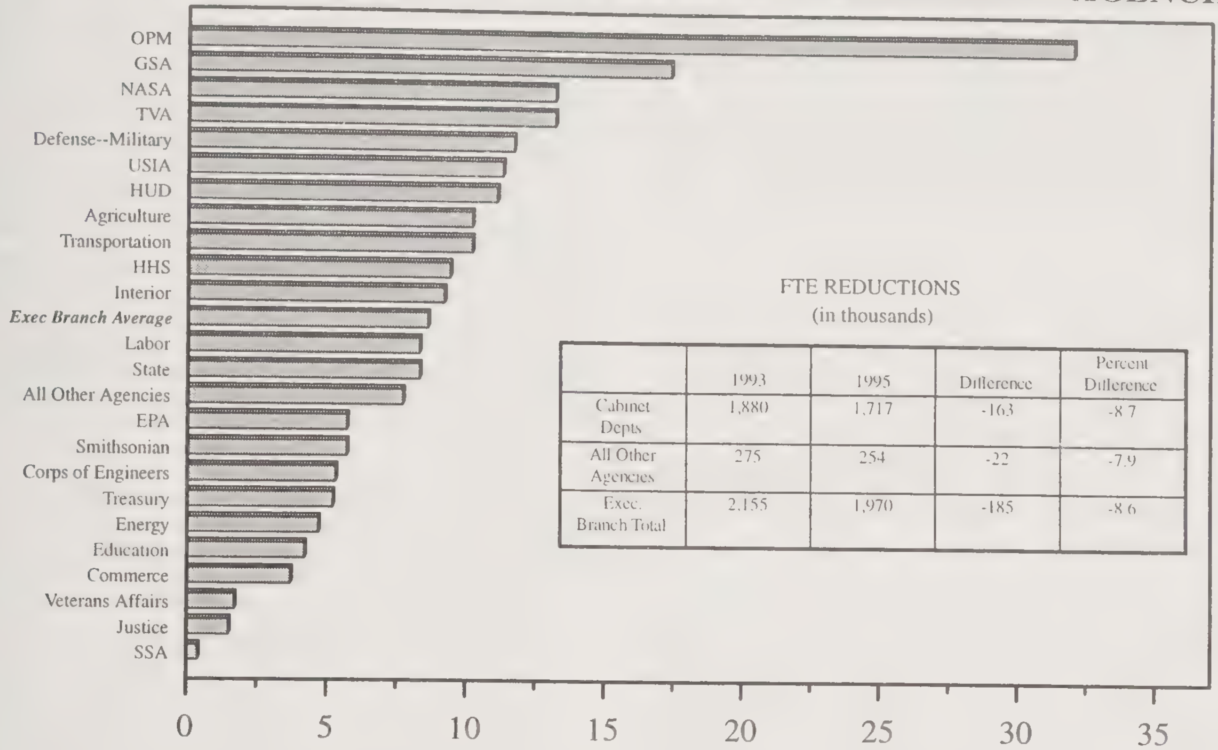
How? First, NASA is cutting its headquarters staff in half, consolidating redundant field functions, and focusing the missions of the respective field centers. From 1993–1995, NASA cut its workforce by over 3,000 FTEs. By 2000, the agency will have 8,000 fewer civil servants and 50,000 fewer contract employees.

Second, NASA has changed the nature of its relationship with private industry. The agency and its contractors are engaged in a new partnership, with contractors operating and commercializing more routine space ventures while the Government focuses on high-reward, multi-decade research and development. NASA is using performance-based contracting to tell contractors what it needs from them, but is giving contractors more freedom on how they meet these needs. (For more details on performance-based contracting, see the discussion later in this chapter.)

OPM: OPM, the Government's central personnel management agency, also is doing more with less. After cutting its workforce by 32 percent from 1993 to 1995; scrapping four layers of management and overhead in its field structure; and refocusing its mission on ensuring the integrity of the merit system, OPM redesigned its management structure and functions.

Despite furloughs and a 67 percent cut in appropriated funds in the Employment

Chart 13-3. CIVILIAN FTE REDUCTIONS ON A PERCENT BASIS, 1993 - 1995 CABINET DEPARTMENTS AND SELECTED INDEPENDENT AGENCIES



FTE REDUCTIONS (in thousands)

	1993	1995	Difference	Percent Difference
Cabinet Depts	1,880	1,717	-163	-8.7
All Other Agencies	275	254	-22	-7.9
Exec. Branch Total	2,155	1,970	-185	-8.6

Notes: The Executive Branch total excludes Postal Service. The 1993 base, which is the starting point for calculating the 272,900 FTE reduction required by the Federal Workforce Restructuring Act, is 2.2 million.

Service Program in 1996, OPM worked to provide first-rate service to its customer agencies. Among other things, it used technology to work smarter and cheaper in human resources activities. OPM also reversed a 10-year trend of higher deficits in its revolving fund by imposing tough management decisions, tighter financial controls, and increased accountability. And the agency successfully privatized its training program and will complete privatization of its investigations function in early 1996.

Reforming Procurement

Until recently, the Federal procurement process had been controlled by a maze of rigid laws and regulations that caused delay, consumed resources, hindered innovation, and made it hard for the Government to choose suppliers committed to delivering good quality at competitive prices.

Federal procurement, which accounts for about $200 billion in spending a year, has been a top focus of Administration activity. The NPR called for a redesigned procurement system that would rely less on bureaucracy and more on streamlined, customer-oriented practices to deliver better value to the taxpayer.

The Federal Acquisition Streamlining Act of 1994 (FASA), which the Administration and Congress developed cooperatively, includes many Administration proposals relating to purchases of commercial items and purchases considered "smaller-dollar"—that is, under $100,000. FASA allows agencies to use simplified procedures for a larger class of smaller-dollar purchases, promotes the acquisition of standard commercial items, eliminates many record-keeping and reporting requirements, focuses on past performance in choosing contractors, and reinforces the President's

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directive that instructs agencies to use electronic commerce to streamline procurement.

More recently, and at the Administration's urging, Congress reformed the way Government makes larger-dollar purchases and acquires information technology (IT) as part of the Federal Acquisition Reform Act (FARA) and Information Technology Management Reform Act, which the President signed into law earlier this year.

These laws:

- allow the Government to reduce the number of suppliers with whom it has negotiations after it receives initial proposals;
- permit the Government to develop simplified procedures for buying commercial items up to $5 million, up from $100,000 under previous law;
- repeal the "Brooks Act," which forced agencies that were buying IT to adhere to special rules and obtain GSA approval;
- establish criteria for agencies to evaluate IT investment programs, modeled on the best practices of successful companies; and
- require agencies first to make the way they work as efficient as possible, then to automate that efficient process, and, finally, to measure the improvement.

Streamlined Negotiation Process: The Administration is working to enable agencies to issue solicitations more easily and to reduce their reliance on the detailed written proposals they receive from suppliers. For example, agencies might ask potential suppliers to present their proposals orally. The Treasury Department's Bureau of Engraving and Printing (BEP) awarded a service contract this way for an international public education campaign relating to the new version of the $100 bill. BEP estimates that oral presentations saved from eight to 12 months in negotiating time. Firms bidding on the BEP project reported significant cuts in their proposal preparation costs.

Using a different streamlining practice, the Government renegotiated the price of its long-distance telephone contract in 1995 by putting two suppliers in direct competition with one another. The Government chose two long-distance providers up-front and will periodically put them in head-to-head competition in the future to ensure that the Government continues to get the best value for its dollar. Due to the most recent renegotiation, the Government will save $200 million a year for the next three years, and will enjoy the lowest long-distance rates anywhere—averaging 3.5 cents a minute.

Commercial Purchases: FASA and FARA also will simplify the procurement process for commercial products and encourage agencies to adopt more commercial practices. These laws are enabling the Government to enjoy the same access to good prices and current technology that other commercial market customers enjoy.

The Defense Department (DOD), Government's largest buyer, is increasingly using commercial products and capabilities in place of custom-designed products that were manufactured solely for the Government market.

- The Air Force, looking to meet DOD's airlift needs, was able to consider a derivative of a commercial airliner as an alternative to the C–17. The competitive pressure enabled the Air Force to save an estimated $4 billion on C–17 purchases.
- The Navy used commercial electronics in its new sonar systems, instead of a military specifications system, thus reducing the life-cycle costs for 13 systems by $100 million over 15 years. In addition, commercial electronics have reduced maintenance requirements, training, and downtime by 75 percent.

Performance-Based Service Contracting: The Government spends $110 billion a year for contracted services. To improve what the Government gets for its dollar, the Administration is introducing performance-based contracting; the Government will make contractors responsible for meeting performance standards while giving them the freedom to decide how.

This method can cut contract costs by an average of 15 percent, according to results of a Government-wide pilot project. The Navy's conversion to performance-based contracting for aircraft maintenance saved an immediate $25 million, and the selection process took 30 fewer days than the previous, non-perform-

ance-based competition. With this in mind, OMB Director Alice Rivlin asked agencies to develop a structured approach to performance-based contracting in order to boost savings and productivity.

Past Performance in Picking Contractors: In an early initiative, the Administration encouraged agencies to use the commercial practice of comparing the past performance of competing contractors. Knowing their ability to get work depends on how well they have performed, contractors now have a strong incentive to strive for excellence.

The change was immediately apparent to GSA's Federal Supply Service (FSS). After identifying 213 suppliers in its Stock and Special Order Program with poor work histories, FSS stopped working with 163 of them. According to FSS, the remaining 50 have significantly improved their performance.

MEETING BOTH GOALS: WORKS BETTER AND COSTS LESS

Changing the Way Government Manages Its Work

The Administration is committed to empowering Federal workers, and encouraging and recognizing their enterprising efforts. Managers and workers are transforming Government from its preoccupation with procedures, process, and penalties to a focus on customers, partnerships, and delivering information and services rapidly. That is, managers and workers are changing the way Government operates.

"Reinvention Labs": In the past three years, the Administration has created over 200 Reinvention Labs, in which groups of employees work outside normal bureaucratic processes to achieve results.

Some Reinvention Labs focus on the work of entire agencies or bureaus. Others concentrate on improving or redesigning specific processes.

- Labs within the Agriculture, Commerce, Energy, Interior, Justice, and Housing and Urban Development (HUD) Departments are developing collaborative partnerships with State and municipal governments and private entities to reach and serve customers better, and to respond more effectively to local priorities.
- Labs within the Department of Health and Human Services (HHS), GSA, and OPM are streamlining internal systems, such as travel, to save money and free up employees for other work.
- Several DOD labs are employing new technologies to enhance their battlefield support to fighting forces.

Vice President Gore has recognized the successes of reinvention with over 280 "Hammer Awards" for teams of Federal, State, and local employees, businesses, and citizens—praising their efforts to build a Government that works better and costs less.

Over a dozen such awards have gone to multiagency teams, recognizing interagency and intergovernmental cooperation. Atlanta's Government-Owned Real Estate Team, comprising officials from GSA and nine other agencies, received its Hammer Award for simplifying the sale of government-owned real estate.

The President's Management Council (PMC): In his first year, the President asked all executive departments and agencies to name a Chief Operating Officer who would report directly to the agency head and be responsible for the agency's overall management. At the same time, to help him and the Vice President foster management reforms, the President created the PMC, comprising the Chief Operating Officers of the Cabinet departments and several other major agencies.

The PMC is a catalyst and implementer of management reforms. It has contributed to the Administration's efforts to reform procurement and personnel systems, improve customer service, rationalize field office structures, and streamline the Federal workforce. It has worked closely with employee representatives and associations of Government managers to make labor-management partnerships a reality. PMC members also worked closely with Members of Congress to craft buyout legislation to make the necessary Government downsizing more humane.

Improving Financial Management

An efficient, effective Government needs sound financial management, including management and reporting systems that produce reliable information. To develop these systems, the Administration is establishing Government-wide accounting standards, producing audited financial statements, streamlining management controls and reporting, and modernizing debt collection.

Government-wide Accounting Standards: To make the Government's financial information more consistent, the Administration set an ambitious goal for the Federal Accounting Standards Advisory Board to recommend a comprehensive set of Government-wide financial accounting and cost accounting standards by spring. Once the Administration and the General Accounting Office adopt the standards, agencies will use them as they prepare financial reports and cost information that, in turn, make the agencies more accountable to taxpayers.

Audited Financial Statements: The Administration has worked to increase the number of agencies with audited financial statements that earned "unqualified opinions" (that is, a clean bill of health). Under the 1990 Chief Financial Officers (CFOs) Act, several agencies and other Government entities must prepare financial statements and have them audited. In 1991, only 35 percent of these entities earned unqualified opinions. By 1994, almost 60 percent did.

The 1994 Government Management Reform Act extended the requirement for audited financial statements to all activities of agencies covered by the CFOs Act, beginning in 1996. Many of the agencies, such as SSA, GSA, NASA, and the Nuclear Regulatory Commission (NRC), already have complied and issued department-wide audited financial statements with unqualified opinions.

Management Controls and Reporting: The Administration has worked to cut agency administrative burdens by streamlining management controls and reporting. In June 1995, OMB gave agencies a framework for integrating management control assessments that are now done by agency managers, auditors, and evaluators.

SSA and GSA have produced reports that represent a first step toward such integration. These pilot Accountability Reports, a proposal of the Chief Financial Officers Council, will help these agencies track their progress in meeting performance goals. Four other agencies—the Treasury and Veterans Affairs Departments, NASA, and the NRC—will issue similar Accountability Reports as they complete their 1995 audited financial statements. The pilot effort will continue in 1996. These initiatives also eliminate the need to separately identify and track "high risk areas"—the Government's serious management challenges. Of the 57 high risk areas discussed in last year's budget, agencies have adequately addressed 12 and are tracking the rest.

Debt Collection: The Administration and Congress have been developing legislation to modernize debt collection, creating new incentives for the Treasury Department and other agencies to support electronic payment and the collection of debts owed to the Federal Government. Coordinated, Government-wide debt-collection systems can have a substantial payoff.

- Treasury's Tax Refund Offset Program, which intercepts tax refund payments to individuals who owe money to the Government, collected over $1.2 billion in 1995, including the Education Department's recovery of over $1 billion for defaulted student loans.
- The Justice Department's Central Intake Facility, which gives agencies a central administrative point to which they can refer debt claims for litigation and enforcement, collected over $1.2 billion in 1995.
- HUD's Credit Alert system has helped agencies avoid making over $8.1 billion in potentially bad loans since 1987 by determining whether loan applicants have been late in paying debts owed to the Government.

Changing the Face of Federal Regulation

Regulations have the potential to be good or bad. Good regulations bring us safer cars and workplaces, cleaner air and water, and fairer business practices. But bad regulations—those that are too costly, too intrusive,

and too inflexible—can impede businesses and other institutions from doing their jobs.

This Administration has sought to develop a more sensible regulatory program, one that reduces the burdens of current and new regulations while improving their effectiveness—in short, a regulatory system that "works better and costs less." The President laid out his regulatory principles in Executive Order 12866. They include:

- collecting accurate data and using objective analysis to make decisions;
- considering the costs and benefits of alternative ways to reach the goals; and
- opening the decision-making process, with meaningful input from affected entities.

In applying these principles to Government's day-to-day work, agencies have made impressive progress toward reforming, and restoring confidence in, the regulatory system. The following examples show how agencies have applied these principles to new regulations.

- *Properly identify problems and risks to be addressed, and tailor the regulatory approach narrowly to address them.* After reports of illness from people eating seafood, the Food and Drug Administration (FDA) worked closely with the seafood industry to adopt an approach that had proven effective in improving seafood safety. The resulting regulation requires seafood processors to continually monitor areas where health hazards will most likely develop, employing sound science and a sense of responsibility.
- *Develop Alternative Approaches to Traditional "Command-and-Control" Regulation.* Too frequently, the Government has told regulated entities precisely what to do, when to do it, and how to do it. Experience shows that, in many areas, there are better ways to reach the same goal. As a result, the Administration has decided to:

  1. *Tell people the goals to meet, not how to meet them.* The Transportation Department (DOT) had long required specific designs for packages used to transport hazardous materials. Many of these designs, however, became outdated—some were never tested to see whether they actually protected the materials being moved and the people moving them. In the past several years, however, DOT has developed new rules that give shippers greater flexibility to design packages, so long as they meet safety thresholds. DOT's action has cut costs, in time as well as money.
  2. *Rely on Market Incentives.* In such areas as fisheries, air transportation, and the environment, the Government is creating "tradeable permit" systems. For example, in regions where fishermen receive permits to catch a certain amount of fish, tradeable permits let them catch more fish by buying the unused portion of other fishermen's quotas. Similarly, airlines can buy and sell landing rights at congested airports, and businesses can buy and sell permits to discharge limited amounts of specific pollutants.

- *Develop rules that, according to sound analysis, are cost-effective and provide maximum benefits.* When such analysis suggested how to save more lives for less money, DOT reassessed a proposal to increase protection for side impacts in light trucks and, instead, chose a more cost-effective proposal to increase protection for head impacts in passenger cars and trucks.
- *Streamline, simplify, and reduce the burden of Federal regulation.* To reduce the burdens on small business, the Small Business Administration (SBA) recently developed an easy, one-page application for loans up to $100,000.
- *Consult with those affected by the regulation, especially State, local, and Tribal governments.* The law requires the Environmental Protection Agency (EPA) to set emissions limits for certain toxic materials from new and existing municipal waste combusters. After consulting with local officials who operate these facilities, EPA revised its regulation, maintaining adequate protection without unduly burdening local governments.

Regulatory Reform: Improving new regulations is only half the challenge; revising existing ones is equally important. In 1995, the President directed agencies to review, page-by-page, their existing regulations and eliminate those that were unduly burdensome, outdated, or in need of revision. The Government is now eliminating 16,000 pages of regulations and improving another 31,000. By the end of 1995, agencies already had eliminated over a third of the 16,000 pages, and improved nearly 5,000 others.

In 1995, the President announced specific regulatory reforms by major agencies, including the EPA; FDA; the Departments of Agriculture, Labor, and Treasury; the Pension Benefit Guaranty Corporation; and SBA. For example, FDA will reform the process for developing drugs and medical devices to bring safe and effective products to market quicker. Recently, FDA also pledged to simplify and speed the development of drugs created through biotechnology—an important growth industry. And FDA has joined with the Agriculture Department to make major reforms in the rules that govern food safety.

Waivers: The Administration has used waivers to cut Federal red tape and give more flexibility to States and localities. HHS has given welfare reform waivers to 37 States and Medicaid waivers to 12, allowing them to experiment with new ways to provide services. The Administration also has provided over 700 waivers to the Food Stamp Act.

The Education Department has used waivers extensively, approving 84 under the Elementary and Secondary Education Act and Goals 2000 to give States, school districts, and schools more flexibility to improve academic achievement. It also has designated Kansas, Massachusetts, Ohio, Oregon, and Texas as Ed-Flex States, allowing them to provide waiver authority to their local districts without further approval.

14. BUILDING ON SUCCESS

As Vice President Gore said three years ago, reinventing the Federal Government will take years of work. Having accomplished much so far, the Administration remains committed to building on its success by finding new, better ways to deliver service to the American people.

As the Administration works to balance the budget, these efforts become even more important. Red tape, perverse incentives, and bureaucratic inertia are even less acceptable in an era of limited funds. In the coming years, the Government will have to make fundamental changes in the way it works with State and local governments, with those it regulates, and with the American public. The initiatives described below are the next in a series of steps to fundamentally change the way Government works.

- Despite some progress, the Government is still fragmented by agency and program, with State and local governments administering 600 Federal programs. At the local level, problems and opportunities do not fit neatly into boxes on the Federal organizational chart. As a result, the Administration is working to redefine the relationship among Federal, State, and local governments to focus on missions and solutions, rather than organizations and structures.
- The Administration is encouraging a stronger partnership between Federal management and its employees. Across the Government, the National Partnership Council is spurring collaborative labor-management efforts, improving customer service, and cutting costs.
- In all of its efforts, the Administration is working to ensure that Government delivers better service to its customers, the American people. In fact, the Administration is creating a new kind of organization—a Performance-Based Organization—to put customer service at the forefront when agencies perform their tasks. And the Administration is redoubling its customer service efforts in those "Vanguard Agencies" that most frequently have contact with citizens.
- To improve customer service and ensure that taxpayer dollars are well spent, the Administration is implementing a comprehensive plan for agencies to manage their resources and programs with a focus on performance and results. The 1993 Government Performance and Results Act and other performance management efforts will give taxpayers a report card on the cost-effectiveness of Government programs.

Performance-Based Intergovernmental Partnerships

The Administration is working to fundamentally shift the way the Federal Government finances and administers over 600 intergovernmental programs. Performance-based intergovernmental partnerships are agreements between the Federal Government and other levels of government based on goals and the progress toward meeting them. In exchange for commitments to specific performance levels, State and local governments receive more administrative flexibility on how to achieve these levels.

Performance Partnerships: Last year, the President proposed to consolidate 271 programs into 27 "Performance Partnerships" in areas such as public health, rural development, education and training, housing and urban development, and transportation. Generally, these partnerships would consolidate funding streams and eliminate overlapping authorities, create financial incentives and reward results, and cut Federal micro-management and paperwork.

For example, the Public Health Service would consolidate over 100 programs into partnership categories, such as chronic diseases. Larger, flexible funding pools would replace small categorical grants. Grantees would decide how to use funds, but would develop—and show progress toward meeting—

public health goals, such as increasing the share of women whose breast cancer is detected at an early stage.

Congress has not yet enacted legislation to implement the proposed partnerships. But, where it can, the Administration is acting on its own. For example, the Department of Health and Human Services has begun consulting with State and local governments, and non-profit service providers, on appropriate measures of program performance.

The Southern Alliance of States: Most States are working with the Federal Government to enhance the dignity and security of public assistance recipients. Rather than use cash or paper instruments such as Food Stamps, they will be able to use debit cards. The efforts build on existing commercial automated teller machine and point-of-sale debit card networks.

In 1994, the Federal Government signed onto a multi-State, multiprogram prototype to provide cash and food assistance to households that do not have bank accounts. The Southern Alliance of States—which includes Arkansas, Missouri, Alabama, North Carolina, Tennessee, Kentucky, Georgia, and Florida—formed a partnership with the Treasury, Agriculture, and Health and Human Services Departments, and the Social Security Administration to choose a financial services provider and implement a one-card program of electronic benefits transfer (EBT) starting in 1995.

Regional alliances in the Northeast, Midwest, and West also are implementing EBT. By 1999, any State will be able to enter a partnership with the Federal Government, giving the 31 million citizens who lack bank accounts access to Federal and State benefits on a secure plastic card.

Oregon Option: In 1994, the Federal Government launched an interagency partnership with Oregon to achieve specific results: better health for children, more stable families, and a more capable workforce. Federal agencies are giving their State counterparts more freedom in how to spend Federal dollars, in exchange for a commitment to be accountable for achieving measurable results. The Administration recently signed a similar partnership with Connecticut to improve the State's poorest communities through economic development and neighborhood revitalization.

Local Partnerships: Individual Federal agencies also have developed performance-based intergovernmental partnerships. The Department of Housing and Urban Development, for example, formed a partnership with the State of Texas and the City of Dallas to revitalize that city, with deadlines for achieving certain objectives and performance measures to assess success. The Environmental Protection Agency has launched an effort, "XL for Communities," giving communities the assistance and flexibility to implement their own community-designed strategies for greater environmental quality.

"Local Flex": More flexibility for States and localities to address their own needs will increase the impact of Federal programs. Only a few Federal agencies, however, can now provide the necessary waivers from legal and regulatory requirements. Other steps are needed.

With some key changes, the proposed Local Empowerment and Flexibility Act would give States and localities a chance to propose plans for better coordination of Federal, State, local, and nonprofit funds and services, and to request waivers from Federal laws and regulations that hinder a locality's ability to achieve results.

Under the legislation, proposed by Senator Hatfield, a team of Cabinet-level officials would review local plans to integrate Federal funds, and Federal agencies could provide more flexibility to achieve results.

Regulatory Partnerships

Among its steps to improve the regulatory process, the Administration is moving away from adversarial enforcement and toward partnerships.

For example, the Labor Department's Occupational Safety and Health Administration (OSHA) is taking its "Maine 200" program to the Nation at large. The program gives the owners of high-injury workplaces the option of developing effective health and safety plans or facing intense scrutiny by OSHA.

"Maine 200" demonstrates the benefits of treating businesses as partners—through this program, companies have eliminated 14 times more workplace hazards than Government inspectors could have found. Under its enforcement partnerships, OSHA: (1) reduces penalties for violations that employers fix during inspection; (2) provides incentives for employers to fix hazards quickly in exchange for reduced penalties; and, most importantly, (3) measures its own performance based on safety and health results, not regulatory compliance.

Federal Workforce Partnerships

In any large organization, change requires leadership, the continued commitment of senior management, and meaningful participation by workers. Leadership and management-employee partnerships will help create a more flexible, efficient Government.

The National Partnership Council (NPC) and Labor-Management Partnerships: Since its creation in October 1993, the NPC has stimulated collaborative labor-management activities across the Government, enabling agencies to accomplish their missions more efficiently and save tax dollars. For example, Red River Army Depot and its six unions saved over $14 million in 1994; the Denver Mint and the American Federation of Government Employees ended third-party intervention in disputes, saving an estimated $10 million; the Customs Service and the National Treasury Employees Union joined hands to reorganize Customs in order to provide better service; and the Labor Department's myriad of partnership reinvention activities received seven of the Vice President's Hammer Awards. (For additional information on the Hammer Awards, see Chapter 13.)

The NPC and other interagency councils—the President's Management Council, the Chief Financial Officers Council, and the President's Council on Integrity and Efficiency—encourage the cross-agency dissemination of ideas, speeding the process of reforming Government. These councils will be responsible for maintaining the reforms in 1997 and beyond.

Performance-Based Organizations and Market Incentives

Performance-Based Organizations (PBOs): In September 1995, the Vice President unveiled the next phase of Administration efforts to improve the delivery of Government services, designating the Commerce Department's Patent and Trademark Office as the first agency function to be transformed into a PBO.

With PBOs, the customer comes first. The Administration will transform some agency customer service functions, such as issuing patents or retirement benefits, into performance-driven, customer-oriented tasks. The agencies will get considerable flexibility to make personnel, procurement, and financial management decisions and, in return, will be held accountable for meeting measurable performance goals in delivering services to the public.

Before the Administration designates a PBO, the agency must have a clear mission with broad support from key "stakeholders," and it must be able to clearly distinguish between its policy-making, regulatory, and service delivery functions. The Administration will only target the service delivery function for PBO status.

In a major change from how the Government normally does business, agencies will hire "chief executives" of the PBOs on a fixed-term contract, with a clear agreement on performance goals, service delivery, and, in some cases, taxpayer savings. Agencies will pay chief executives at market rates, with a large chunk of pay tied to performance.

Candidates to become PBOs in 1997 are listed in Table 14–1.

Table 14–1. Performance-Based Organizations

Department or Agency	Function
Agriculture	Inspection of international travelers and cargo
Commerce	Technical information dissemination
Commerce	Intellectual property rights (Patent and Trademark Office)
Defense	Commissary services
Housing and Urban Development	Mortgage insurance services (FHA and GNMA)
Transportation	St. Lawrence Seaway Corporation
Office of Personnel Management	Retirement benefit management services

Internal Market Competition, Contracting Out, and Privatizing: Competition spurs efficiency. Agencies that provide administrative or other commercial/industrial services to captive customers lack the stimulus of competition to sharpen their performance. The Administration's "franchising" initiative is designed to increase competition by encouraging agencies to compete with one another and with the private sector to provide common administrative services. The Administration is consulting with Congress on pilot programs in such departments as Interior, Veterans Affairs, and Commerce.

Agency managers also can procure services from the private sector. OMB Circular A–76 governs how the Government chooses the most efficient source of commercial-type, public services—the Government or the private sector. OMB is revising the Circular to simplify cost comparison requirements; cut reporting and other administrative burdens; provide for more employee participation; facilitate employee placement; maintain the "level playing field" to compare costs between the Federal and private sectors; and improve oversight to ensure that the most cost-effective decision is implemented.

Increased Emphasis on Customer Service

Better customer service is central to the Administration's efforts to make Government work better and cost less. The President and Vice President have challenged service-providing agencies to make significant, visible improvements in their customer service (see Table 14–2). A number of the agencies will make their specific commitments to improve service through the Internet and, for the first time, will take feedback from their customers through that medium.

Agencies are communicating with their customers more than ever, and in more ways. In early 1996, many agencies will post their customer service standards on their "home pages." Future initiatives will include: one-stop assistance, such as the U.S. General Store for Small Businesses in Houston; 24-hour on-line services, such as the U.S. Business Advisor; and new ways for Americans to find Federal services in the Government or blue pages of telephone directories. Agencies are listing their services, not their organization charts—so, instead of looking for passport services under the State Department and the Bureau of Consular Affairs, citizens needing passports will be able to look under "P" for Passports.

Table 14–2. Specific Commitments of Members of the President's Vanguard

Occupational Safety and Health Administration:
- Make a visible improvement in recruiting for partnership programs by taking the concepts of "Maine 200" program nationwide.
- Overhaul the worker complaint system to cut response time in half by working with employees and employers to immediately correct the hazards.

Internal Revenue Service:
- Make it easier, faster, and more convenient for taxpayers to file their tax returns and get forms and information by: expanding electronic filing; bringing telefile to all 50 States; making Form 1040EZ available to more people; and providing electronic services for 24-hour access—worldwide—to forms, publications, and information.

Environmental Protection Agency (EPA):
- Dramatically increase EPA's partnerships with business to better protect the environment and public health at less cost, through such programs as Project XL and the Common Sense Initiative, and through the agency's voluntary pollution prevention programs, such as Energy Star, Pesticide Environmental Stewardship, WAVE, Green Lights, Climate Wise, WasteWi$e, and 33/50.

Forest Service & Park Service:
- Dramatically improve the quality of the recreational experience and the services received by campers and visitors to the forests and parks.
- Team up to develop a prototype one-stop information and campground reservation system for public lands.

Customs Service, Immigration and Naturalization Service, and Agriculture:
- Use technology to strengthen enforcement by providing more comprehensive and more timely information to front-line inspectors.
- Team up to beat the International Air Transportation Association standard of 45 minutes from block time to exit in every major international airport.
- Develop and meet a similar standard for land border crossings.

Veterans Affairs:
- Give veterans and their dependents heightened interaction in benefits delivery.
- Make timely access the hallmark of veterans medical care.
- Maintain cemeteries as befit national shrines.
- Provide the advantages of electronic commerce to veterans and suppliers.

Passport Office:
- Ensure that all customers visiting a passport office by summer 1996 have a pleasant experience.
- Slash the lines in passport offices by summer 1996.
- If a customer has a concern regarding service, they can speak with a customer service representative.
- Ensure that all telephone inquiries are answered within 2 to 3 minutes.
- Partner with the travel industry to give travelers easy access to passport information and forms.

Social Security Administration:
- Improve access to SSA's 1–800 line by giving callers nationwide immediate access to automated services and a choice of a live operator.
- Make spectacular improvements in callers' ability to reach SSA during 1996.

The Focus on Results

To improve customer service and ensure that Government spends money wisely, the Administration has directed agencies to manage their programs with an eye toward achieving performance goals—that is, results. Using the 1993 Government Performance and Results Act (GPRA), the Administration is working to transform the way agencies are administered and programs are managed.

The number and importance of agency performance goals is growing. For example, the Coast Guard has set a target for cutting deaths in the commercial fishing industry, one of the Nation's most hazardous occupations, from 55 deaths per 100,000 workers in 1993, to 44 in 1996 and 36 in 1998. The Forest Service has set a goal of increasing, by nearly half over 1994 levels, the number of acres on which the Government is taking steps (such as chemical treatment) to cut the threat and consequence of wildfires.

Under GPRA, agencies will prepare strategic plans that are built around their missions and clearly outline their goals, and develop measures to track their progress in achieving the goals. They will publish annual performance reports to enable Congress and the public to better understand how the Government is spending tax dollars and what it is achieving. These reports will give the public an annual update on our efforts to create a Government that works better and costs less.

SUMMARY TABLES

Budget Aggregates

BUDGET AGGREGATES

Table S–1. OUTLAYS, RECEIPTS, AND DEFICIT SUMMARY

(In billions of dollars)

	1995 Actual	Estimate						
		1996	1997	1998	1999	2000	2001	2002
Outlays:								
Discretionary:								
National defense	273.5	266.3	259.4	255.5	257.1	263.5	266.6	276.1
International	20.1	20.1	19.8	19.1	18.5	17.9	17.9	18.5
Domestic	252.0	254.8	263.0	264.5	260.1	255.4	263.7	278.2
Subtotal, discretionary	545.7	541.2	542.3	539.1	535.7	536.8	548.2	572.9
Mandatory:								
Programmatic:								
Social security	333.3	348.1	364.8	383.3	401.7	421.3	441.9	463.5
Medicare	156.9	174.9	187.4	202.2	215.6	228.3	245.5	264.1
Medicaid	89.1	94.9	105.6	111.3	116.5	122.3	128.6	133.2
Means-tested entitlements (except Medicaid)	92.5	96.8	103.9	108.8	113.7	121.4	121.2	129.3
Deposit insurance	–17.9	–13.5	–4.3	–2.0	–0.5	–2.2	–1.6	–1.8
Other	131.9	131.2	138.1	139.5	142.9	148.9	148.6	152.5
Subtotal, programmatic	785.8	832.4	895.5	943.1	990.0	1,040.2	1,084.2	1,140.9
Undistributed offsetting receipts	–44.5	–42.3	–41.0	–42.4	–43.4	–45.5	–47.9	–68.7
Subtotal, mandatory	741.3	790.2	854.5	900.7	946.6	994.7	1,036.3	1,072.2
Net interest	232.2	241.1	238.5	236.1	234.6	229.9	227.0	223.2
Subtotal, mandatory and net interest	973.5	1,031.2	1,093.0	1,136.8	1,181.3	1,224.5	1,263.3	1,295.5
Total outlays	**1,519.1**	**1,572.4**	**1,635.3**	**1,675.9**	**1,716.9**	**1,761.4**	**1,811.5**	**1,868.3**
Receipts	**1,355.2**	**1,426.8**	**1,495.2**	**1,577.9**	**1,652.5**	**1,733.8**	**1,819.8**	**1,912.2**
Deficit/Surplus	**–163.9**	**–145.6**	**–140.1**	**–98.0**	**–64.4**	**–27.5**	**8.3**	**43.9**

Table S–2. ON- AND OFF-BUDGET TOTALS (1995–2006)

	1995 Actual	Estimate										
		1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
In billions of dollars												
Outlays	1,519.1	1,572.4	1,635.3	1,675.9	1,716.9	1,761.4	1,811.5	1,868.3	1,970.7	2,050.5	2,141.7	2,229.1
Receipts	1,355.2	1,426.8	1,495.2	1,577.9	1,652.5	1,733.8	1,819.8	1,912.2	2,010.5	2,109.5	2,221.4	2,326.8
Deficit/Surplus	–163.9	–145.6	–140.1	–98.0	–64.4	–27.5	8.3	43.9	39.8	59.0	79.7	97.7
On-budget	(–226.3)	(–211.0)	(–210.4)	(–175.3)	(–150.2)	(–119.7)	(–90.6)	(–62.2)	(–73.2)	(–60.1)	(–52.2)	(–38.2)
Off-budget	(62.4)	(65.3)	(70.3)	(77.3)	(85.8)	(92.1)	(98.9)	(106.1)	(113.1)	(119.2)	(131.9)	(135.9)
As percentages of GDP												
Outlays	21.2	20.9	20.7	20.2	19.6	19.2	18.8	18.4	18.5	18.3	18.2	18.0
Receipts	18.9	19.0	18.9	19.0	18.9	18.9	18.9	18.9	18.9	18.8	18.9	18.8
Deficit/Surplus	–2.3	–1.9	–1.8	–1.2	–0.7	–0.3	0.1	0.4	0.4	0.5	0.7	0.8
On-budget	(–3.2)	(–2.8)	(–2.7)	(–2.1)	(–1.7)	(–1.3)	(–0.9)	(–0.6)	(–0.7)	(–0.5)	(–0.4)	(–0.3)
Off-budget	(0.9)	(0.9)	(0.9)	(0.9)	(1.0)	(1.0)	(1.0)	(1.0)	(1.1)	(1.1)	(1.1)	(1.1)

Table S–3. SUMMARY OF RECEIPTS, OUTLAYS, AND SURPLUSES OR DEFICITS (–): 1789–2002

(In millions of dollars)

Year	Total			On-Budget			Off-Budget		
	Receipts	Outlays	Surplus or Deficit (–)	Receipts	Outlays	Surplus or Deficit (–)	Receipts	Outlays	Surplus or Deficit (–)
1789–1849	1,160	1,090	70	1,160	1,090	70	....	....	....
1850–1900	14,462	15,453	–991	14,462	15,453	–991	....	....	....
1901	588	525	63	588	525	63	....	....	....
1902	562	485	77	562	485	77	....	....	....
1903	562	517	45	562	517	45	....	....	....
1904	541	584	–43	541	584	–43	....	....	....
1905	544	567	–23	544	567	–23	....	....	....
1906	595	570	25	595	570	25	....	....	....
1907	666	579	87	666	579	87	....	....	....
1908	602	659	–57	602	659	–57	....	....	....
1909	604	694	–89	604	694	–89	....	....	....
1910	676	694	–18	676	694	–18	....	....	....
1911	702	691	11	702	691	11	....	....	....
1912	693	690	3	693	690	3	....	....	....
1913	714	715	–*	714	715	–*	....	....	....
1914	725	726	–*	725	726	–*	....	....	....
1915	683	746	–63	683	746	–63	....	....	....
1916	761	713	48	761	713	48	....	....	....
1917	1,101	1,954	–853	1,101	1,954	–853	....	....	....
1918	3,645	12,677	–9,032	3,645	12,677	–9,032	....	....	....
1919	5,130	18,493	–13,363	5,130	18,493	–13,363	....	....	....
1920	6,649	6,358	291	6,649	6,358	291	....	....	....
1921	5,571	5,062	509	5,571	5,062	509	....	....	....
1922	4,026	3,289	736	4,026	3,289	736	....	....	....
1923	3,853	3,140	713	3,853	3,140	713	....	....	....
1924	3,871	2,908	963	3,871	2,908	963	....	....	....
1925	3,641	2,924	717	3,641	2,924	717	....	....	....
1926	3,795	2,930	865	3,795	2,930	865	....	....	....
1927	4,013	2,857	1,155	4,013	2,857	1,155	....	....	....
1928	3,900	2,961	939	3,900	2,961	939	....	....	....
1929	3,862	3,127	734	3,862	3,127	734	....	....	....
1930	4,058	3,320	738	4,058	3,320	738	....	....	....
1931	3,116	3,577	–462	3,116	3,577	–462	....	....	....
1932	1,924	4,659	–2,735	1,924	4,659	–2,735	....	....	....
1933	1,997	4,598	–2,602	1,997	4,598	–2,602	....	....	....
1934	2,955	6,541	–3,586	2,955	6,541	–3,586	....	....	....
1935	3,609	6,412	–2,803	3,609	6,412	–2,803	....	....	....
1936	3,923	8,228	–4,304	3,923	8,228	–4,304	....	....	....
1937	5,387	7,580	–2,193	5,122	7,582	–2,460	265	–2	267
1938	6,751	6,840	–89	6,364	6,850	–486	387	–10	397
1939	6,295	9,141	–2,846	5,792	9,154	–3,362	503	–13	516
1940	6,548	9,468	–2,920	5,998	9,482	–3,484	550	–14	564
1941	8,712	13,653	–4,941	8,024	13,618	–5,594	688	35	653
1942	14,634	35,137	–20,503	13,738	35,071	–21,333	896	66	830
1943	24,001	78,555	–54,554	22,871	78,466	–55,595	1,130	89	1,041
1944	43,747	91,304	–47,557	42,455	91,190	–48,735	1,292	114	1,178
1945	45,159	92,712	–47,553	43,849	92,569	–48,720	1,310	143	1,167
1946	39,296	55,232	–15,936	38,057	55,022	–16,964	1,238	210	1,028
1947	38,514	34,496	4,018	37,055	34,193	2,861	1,459	303	1,157
1948	41,560	29,764	11,796	39,944	29,396	10,548	1,616	368	1,248
1949	39,415	38,835	580	37,724	38,408	–684	1,690	427	1,263
1950	39,443	42,562	–3,119	37,336	42,038	–4,702	2,106	524	1,583
1951	51,616	45,514	6,102	48,496	44,237	4,259	3,120	1,277	1,843
1952	66,167	67,686	–1,519	62,573	65,956	–3,383	3,594	1,730	1,864
1953	69,608	76,101	–6,493	65,511	73,771	–8,259	4,097	2,330	1,766
1954	69,701	70,855	–1,154	65,112	67,943	–2,831	4,589	2,912	1,677

* $500 thousand or less.

Table S–3. SUMMARY OF RECEIPTS, OUTLAYS, AND SURPLUSES OR DEFICITS(–): 1789–2002—Continued

(In millions of dollars)

Year	Total			On-Budget			Off-Budget		
	Receipts	Outlays	Surplus or Deficit (–)	Receipts	Outlays	Surplus or Deficit (–)	Receipts	Outlays	Surplus or Deficit (–)
1955	65,451	68,444	–2,993	60,370	64,461	–4,091	5,081	3,983	1,098
1956	74,587	70,640	3,947	68,162	65,668	2,494	6,425	4,972	1,452
1957	79,990	76,578	3,412	73,201	70,562	2,639	6,789	6,016	773
1958	79,636	82,405	–2,769	71,587	74,902	–3,315	8,049	7,503	546
1959	79,249	92,098	–12,849	70,953	83,102	–12,149	8,296	8,996	–700
1960	92,492	92,191	301	81,851	81,341	510	10,641	10,850	–209
1961	94,388	97,723	–3,335	82,279	86,046	–3,766	12,109	11,677	431
1962	99,676	106,821	–7,146	87,405	93,286	–5,881	12,271	13,535	–1,265
1963	106,560	111,316	–4,756	92,385	96,352	–3,966	14,175	14,964	–789
1964	112,613	118,528	–5,915	96,248	102,794	–6,546	16,366	15,734	632
1965	116,817	118,228	–1,411	100,094	101,699	–1,605	16,723	16,529	194
1966	130,835	134,532	–3,698	111,749	114,817	–3,068	19,085	19,715	–630
1967	148,822	157,464	–8,643	124,420	137,040	–12,620	24,401	20,424	3,978
1968	152,973	178,134	–25,161	128,056	155,798	–27,742	24,917	22,336	2,581
1969	186,882	183,640	3,242	157,928	158,436	–507	28,953	25,204	3,749
1970	192,807	195,649	–2,842	159,348	168,042	–8,694	33,459	27,607	5,852
1971	187,139	210,172	–23,033	151,294	177,346	–26,052	35,845	32,826	3,019
1972	207,309	230,681	–23,373	167,402	193,824	–26,423	39,907	36,857	3,050
1973	230,799	245,707	–14,908	184,715	200,118	–15,403	46,084	45,589	495
1974	263,224	269,359	–6,135	209,299	217,270	–7,971	53,925	52,089	1,836
1975	279,090	332,332	–53,242	216,633	271,892	–55,260	62,458	60,440	2,018
1976	298,060	371,792	–73,732	231,671	302,183	–70,512	66,389	69,609	–3,220
TQ	81,232	95,975	–14,744	63,216	76,555	–13,339	18,016	19,421	–1,405
1977	355,559	409,218	–53,659	278,741	328,502	–49,760	76,817	80,716	–3,899
1978	399,561	458,746	–59,186	314,169	369,089	–54,920	85,391	89,657	–4,266
1979	463,302	504,032	–40,729	365,309	404,054	–38,745	97,994	99,978	–1,984
1980	517,112	590,947	–73,835	403,903	476,618	–72,715	113,209	114,329	–1,120
1981	599,272	678,249	–78,976	469,097	543,053	–73,956	130,176	135,196	–5,020
1982	617,766	745,755	–127,989	474,299	594,351	–120,052	143,467	151,404	–7,937
1983	600,562	808,380	–207,818	453,242	661,272	–208,030	147,320	147,108	212
1984	666,457	851,846	–185,388	500,382	686,032	–185,650	166,075	165,813	262
1985	734,057	946,391	–212,334	547,886	769,584	–221,698	186,171	176,807	9,363
1986	769,091	990,336	–221,245	568,862	806,838	–237,976	200,228	183,498	16,731
1987	854,143	1,003,911	–149,769	640,741	810,079	–169,339	213,402	193,832	19,570
1988	908,954	1,064,140	–155,187	667,463	861,449	–193,986	241,491	202,691	38,800
1989	990,691	1,143,172	–152,481	727,026	932,261	–205,235	263,666	210,911	52,754
1990	1,031,321	1,252,515	–221,194	749,666	1,027,450	–277,784	281,656	225,065	56,590
1991	1,054,272	1,323,631	–269,359	760,388	1,081,944	–321,557	293,885	241,687	52,198
1992	1,090,453	1,380,856	–290,403	788,027	1,128,518	–340,490	302,426	252,339	50,087
1993	1,153,535	1,408,675	–255,140	841,601	1,142,088	–300,487	311,934	266,587	45,347
1994	1,257,737	1,460,841	–203,104	922,711	1,181,469	–258,758	335,026	279,372	55,654
1995	1,355,213	1,519,133	–163,920	1,004,134	1,230,469	–226,335	351,079	288,664	62,415
1996 estimate	1,426,775	1,572,411	–145,636	1,059,334	1,270,292	–210,958	367,441	302,119	65,322
1997 estimate	1,495,238	1,635,329	–140,091	1,107,223	1,317,655	–210,432	388,015	317,674	70,341
1998 estimate	1,577,925	1,675,877	–97,952	1,171,627	1,346,891	–175,264	406,298	328,986	77,312
1999 estimate	1,652,546	1,716,949	–64,403	1,224,759	1,374,955	–150,196	427,787	341,994	85,793
2000 estimate	1,733,818	1,761,367	–27,549	1,283,860	1,403,537	–119,677	449,958	357,830	92,128
2001 estimate	1,819,796	1,811,531	8,265	1,348,591	1,439,213	–90,622	471,205	372,318	98,887
2002 estimate	1,912,218	1,868,316	43,902	1,417,595	1,479,809	–62,214	494,623	388,507	106,116

1997 Budget Proposals

1997 BUDGET PROPOSALS

Table S–4. SUMMARY OF BUDGET PROPOSALS

(In billions of dollars)

	Estimate							Total 1996–2002
	1996	1997	1998	1999	2000	2001	2002	
Current services baseline deficit	153.6	149.8	144.4	144.4	139.8	130.8	131.0	993.7
Switch to discretionary caps	7.8	–0.2	–17.6	–13.7	–12.9	–13.1	–10.8	–60.4
Extend expired trust fund excise taxes	–0.5	–5.5	–5.7	–6.0	–6.3	–6.7	–7.0	–37.7
Related debt service	0.2	0.2	–0.5	–1.5	–2.3	–3.2	–4.2	–11.2
Revised baseline deficit	161.2	144.4	120.6	123.3	118.3	107.8	109.0	884.4
Savings:								
Discretionary [1]	–7.5	–7.1	–9.9	–28.9	–43.6	–48.4	–40.4	–185.7
Mandatory.								
Medicare [2]	0.3	–5.8	–10.0	–16.1	–24.7	–30.6	–36.9	–123.8
Medicaid [3]	....	3.3	–0.6	–5.6	–11.3	–17.6	–27.0	–58.7
Welfare reform [4]	–0.3	–4.9	–6.5	–6.3	–7.0	–7.1	–8.6	–40.8
Earned Income Tax Credit (EITC) [5]	–*	–0.9	–1.0	–1.0	–1.0	–1.0	–0.9	–5.8
Other mandatory	–9.2	0.1	0.6	–5.4	–7.0	–11.0	–31.1	–62.9
Total, mandatory	–9.2	–8.1	–17.5	–34.4	–51.0	–67.3	–104.6	–292.2
Tax cuts	1.3	17.6	14.1	17.5	21.4	22.4	23.2	117.4
Corporate loopholes and other	0.3	–5.6	–7.3	–9.3	–10.0	–10.3	–12.1	–54.3
Total, policy proposals	–15.2	–3.2	–20.7	–55.0	–83.1	–103.7	–133.8	–414.7
Debt service	–0.4	–1.1	–2.0	–3.8	–7.6	–12.4	–19.0	–46.3
Total savings	–15.5	–4.3	–22.7	–58.9	–90.7	–116.0	–152.9	–461.0
Deficit/surplus	145.6	140.1	98.0	64.4	27.5	–8.3	–43.9	423.5

* $50 million or less.

[1] The President is committed to producing a balanced budget by 2002 under the economic and technical assumptions of the Congressional Budget Office (CBO). If under CBO's revised economic and technical assumptions, which will be released later this spring, there would be a deficit in 2002, the discretionary proposals will be reduced by the amount necessary to eliminate that deficit.

[2] Effects of Medicare savings proposals on HI premium receipts are included in "other mandatory."

[3] Interactions with Medicare and VA health proposals are included in "other mandatory."

[4] Includes savings to cover discretionary cap increases that fund administrative costs of implementing welfare reform provisions.

[5] Includes EITC revenues.

Table S-5. APPLICATION OF THE "FISCAL DIVIDEND" TO BUDGET PROPOSALS

(In billions of dollars)

	Estimate						
	1996	1997	1998	1999	2000	2001	2002
Deficit or surplus assuming tax cuts expire on December 31, 2000:							
CBO December economic and technical assumptions	–158.0	–164.2	–150.0	–126.2	–108.7	–62.1	7.6
OMB March economic and technical assumptions	–145.6	–140.1	–98.0	–64.4	–27.5	39.5	115.2
Difference	12.4	24.1	52.0	61.8	81.1	101.5	107.6
Trigger impact on OMB estimates:							
Step 1—Continue tax cut					(20.0)	8.9	22.7
Step 2—Increase discretionary spending					(20.0)	12.9	27.1
Step 3:							
Further discretionary increases		Not applicable			(13.7)	8.8	18.6
Reserved for additional tax cuts					(13.7)		
Reserved for deficit reduction					(13.7)		
Debt service						0.7	2.9
Total trigger					(81.1)	31.2	71.3
OMB deficit or surplus	–145.6	–140.1	–98.0	–64.4	–27.5	8.3	43.9

Note: The President is committed to producing a balanced budget by 2002 under the economic and technical assumptions of the Congressional Budget Office (CBO). If under CBO's revised economic and technical assumptions, which will be released later this spring, there would be a deficit in 2002, the discretionary proposals will be reduced by the amount necessary to eliminate that deficit.

Table S–6. PROPOSED DISCRETIONARY SPENDING RELATIVE TO THE CAPPED BASELINE

(In billions of dollars)

		Estimate							Total
		1996	1997	1998	1999	2000	2001	2002	1996–2002
Preview Report capped baseline	BA	523.0	530.3	534.4	549.3	564.7	580.5	596.8	3,878.9
	OL	548.0	548.7	548.5	563.8	579.6	595.9	612.6	3,997.1
Proposed Levels:									
Discretionary proposals other than the Department of Defense	BA	247.3	258.4	258.1	256.1	253.7	275.7	292.6	1,841.9
	OL	286.0	294.0	294.3	288.4	282.2	290.9	307.2	2,043.2
Department of Defense	BA	252.6	243.4	248.9	255.0	262.4	270.3	277.3	1,809.9
	OL	255.2	248.3	244.7	247.3	254.6	257.3	265.6	1,773.0
Total discretionary proposals [1]	BA	499.8	501.8	507.0	511.1	516.1	546.1	570.0	3,651.8
	OL	541.2	542.3	539.1	535.7	536.8	548.2	572.9	3,816.2
Discretionary savings from capped baseline [2]	**BA**	**–23.1**	**–28.5**	**–27.3**	**–38.3**	**–48.6**	**–34.4**	**–26.8**	**–227.1**
	OL	**–6.9**	**–6.4**	**–9.4**	**–28.2**	**–42.8**	**–47.6**	**–39.7**	**–180.9**

[1] The budget proposes to extend the discretionary spending limits from 1999 through 2002 consistent with the level of discretionary spending assumed in the budget that achieves balance in 2002.

[2] The total discretionary outlay savings for 1996–2002 are $180.9 billion. The table below explains why these savings differ from the 1996–2002 savings of $185.7 billion listed in Table S–4, as well as the $297.2 billion savings listed in Table S–11 that uses CBO's baseline.

	Adjustment to CBO Capped December Baseline	Adjustment to OMB Capped March Baseline
	Outlays	*Outlays*
Discretionary savings, excluding fiscal dividend and other adjustments, 1996–2002	**–297.2**	**–253.1**
Additional discretionary spending from the fiscal dividend	NA	67.4
Discretionary savings, including fiscal dividend, 1996–2002	**–297.2**	**–185.7**
Other Adjustments:		
Welfare Reform: Funding to increase continuing disability reviews and implement the Administration's welfare reform proposal	3.9	3.9
Emergencies	0.8	0.8
Total discretionary savings, 1996–2002	**–292.4**	**–180.9**

Table S–7. ESTIMATES OF MANDATORY BUDGET PROPOSALS BY PROGRAM

(In millions of dollars)

Mandatory Proposals	Estimate							Total 1996–2002
	1996	1997	1998	1999	2000	2001	2002	
Medicare savings	**306**	**–5,800**	**–9,969**	**–16,115**	**–24,666**	**–30,645**	**–36,946**	**–123,835**
Impact of Medicare proposals on premiums for otherwise uninsured (HI)	....	123	178	226	286	332	380	1,525
Medicaid savings	....	**3,292**	**–646**	**–5,563**	**–11,264**	**–17,589**	**–26,961**	**–58,731**
Effects of VA and Medicare proposals on Medicaid	....	–15	–25	336	437	598	763	2,094
Health insurance for the temporarily unemployed	....	1,519	2,158	2,345	2,550	....	....	8,572
Health insurance reform: grants for health insurance cooperatives	....	25	25	25	25	25	....	125
Welfare reform[1]	**–320**	**–4,883**	**–6,505**	**–6,346**	**–7,010**	**–7,147**	**–8,625**	**–40,836**
Modify earned income tax credit eligibility rules:								
Outlays	–14	–596	–606	–602	–598	–580	–568	–3,564
Receipts	–2	–278	–419	–409	–397	–388	–380	–2,273
Earned income tax credit, subtotal	**–16**	**–874**	**–1,025**	**–1,011**	**–995**	**–968**	**–948**	**–5,837**
Other mandatory:								
Student loans:								
Reduce payments to lenders, guaranty agencies, secondary markets and postsecondary institutions, and reduce Federal administrative funding	–847	–568	–665	–607	–571	–582	–595	–4,435
Civilian retirement:								
Extend civilian retirement COLA delay	....	–278	–307	–295	–302	–310	–319	–1,811
Modify Congressional retirement benefits	....	....	–1	–1	–2	–2	–2	–8
Subtotal, civilian retirement	....	–278	–308	–296	–304	–312	–321	–1,819
Veterans:								
Paygo proposals:								
Compensation and Pensions:								
Extend rounding down for compensation cost-of-living adjustment (COLA)	....	–17	–37	–56	–77	–92	–118	–397
Restrict collection of compensation for non-malpractice injuries (Gardner decision)	–36	–112	–191	–272	–359	–450	–544	–1,964
Extend income verification of pension and medical care beneficiaries	....	....	....	–45	–60	–76	–92	–273
Limit pension benefits to Medicaid eligible beneficiaries in nursing homes	....	....	....	–553	–567	–580	–597	–2,297
Subtotal, compensation and pensions	–36	–129	–228	–926	–1,063	–1,198	–1,351	–4,931
Housing:								
Enable VA to use Federal salary and tax refund offset to collect on deficiency balances for defaulted loans guaranteed prior to 1990	–90	....	....	....	....	....	....	–90
Extend three provisions that maintain higher loan fees and reduce resale losses on foreclosed properties	....	....	....	–189	–183	–187	–189	–748
Extend medical care copayments, per diems, and third party insurance recoveries	....	....	....	–282	–288	–292	–306	–1,168
Restrict vocational rehabilitation benefits to only those veterans who have service-connected disabilities that are substantially linked to their employment handicaps (Davenport decision)	....	–20	–39	–56	–56	–57	–57	–285
Subtotal, paygo proposals	–126	–149	–267	–1,453	–1,590	–1,734	–1,903	–7,222
Non-paygo proposals:								
Retain portion of excess medical insurance collections	–11	–46	–36	–36	–36	–36	–37	–238
Subtotal, veterans proposals	–137	–195	–303	–1,489	–1,626	–1,770	–1,940	–7,460
Auction spectrum	–150	–1,800	–2,650	–3,550	–3,100	–2,650	–18,400	–32,300

Table S–7. ESTIMATES OF MANDATORY BUDGET PROPOSALS BY PROGRAM—Continued

(In millions of dollars)

Mandatory Proposals	Estimate							Total 1996–2002
	1996	1997	1998	1999	2000	2001	2002	
Auction "888" phone numbers	....	–200	–300	–200	....	....	....	–700
New/extend user fees:								
Extend vessel tonnage fees	....	....	....	–62	–62	–62	–62	–248
Extend hardrock mining fees	....	–1	–2	–34	–36	–37	–38	–148
Impose Hetch Hetchy Dam rental payments	....	–1	–1	–1	–1	–1	–1	–6
Extend Deepwater royalty relief	....	....	....	....	....	–20	–20	–40
Extend surcharge on patent fees	....	....	....	–119	–119	–119	–119	–476
Extend Nuclear Regulatory Commission fees	....	....	....	–310	–310	–310	–310	–1,240
Authorize FEMA fees	....	–12	–12	–12	–12	–12	–12	–72
Collect fisheries management fees	....	–3	....	....	....	....	....	–3
Expand authority for National Park Service fees [2]	....	–13	–8	–13	–10	–14	–9	–67
Extend rail safety fees	–22	–47	–49	–51	–53	–55	–57	–334
Extend pesticide re-registration fee	....	–1	–1	....	1	1	....	....
Restore the Everglades (sugar assessment-net)	....	–18	–4	....	....	....	....	–22
Agriculture marketing order fees	....	–10	–11	–11	–11	–11	–11	–65
Spending from SEC fees (included under revenues)	....	224	266	277	288	299	311	1,665
Subtotal, new/extend user fees	–22	118	178	–336	–325	–341	–328	–1,056
Housing/banking reform:								
FHA portfolio reengineering	–1,386	....	....	....	....	....	....	–1,386
Alter FHA single-family assignment and portfolio reengineering:								
Non-paygo	–303	791	307	117	–995	–1,170	–1,068	–2,321
Limit Section 8 annual rent increases	–60	–236	–342	–388	–408	–411	–419	–2,264
Savings Association Insurance Fund (SAIF)/ Bank Insurance Fund (BIF): [3]								
Paygo	592	....	....	....	....	....	....	592
Non-paygo	–4,974	469	–187	–219	–29	–65	–95	–5,100
Subtotal, SAIF/BIF	–4,382	469	–187	–219	–29	–65	–95	–4,508
Reimburse the Federal reserve bank	....	122	122	122	122	122	122	732
Subtotal, housing/banking reforms	–6,131	1,146	–100	–368	–1,310	–1,524	–1,460	–9,747
Strategic Petroleum and Naval Petroleum Reserve:								
Lease excess Strategic Petroleum Reserve	....	....	–20	–40	–80	–100	–120	–360
Sell Weeks Island Strategic Petroleum Reserve	....	....	....	....	....	....	–1,534	–1,534
Naval Petroleum Reserve	....	....	2,215	–370	–340	–310	–1,980	–785
Subtotal, Strategic Petroleum and Naval Petroleum Reserve	....	....	2,195	–410	–420	–410	–3,634	–2,679
Sell/privatize government assets								
Privatize the College Construction Loan Insurance Association through the sale of Federally owned stock (Non-paygo)	....	–7	....	....	....	....	....	–7
Sale of Governor's Island	....	....	....	....	....	....	–500	–500
Privatize US Enrichment Corporation	–1,561	204	207	124	–102	–119	–319	–1,566
Sales from National Defense Stockpile	–21	–79	–79	–79	–80	–155	–156	–649
Terminate helium refinery and sell helium stockpile	....	–3	–8	–10	–10	–10	–9	–50
Sale of Union Station air rights	....	....	....	....	....	....	–40	–40
Subtotal, sell/privatize government assets	–1,582	115	120	35	–192	–284	–1,024	–2,812
Debt management/collection and other specified proposal:								
Repeal the mandatory appropriation under the Smith-Hughes Act of 1918	....	–1	–6	–7	–7	–7	–7	–35

Table S–7. ESTIMATES OF MANDATORY BUDGET PROPOSALS BY PROGRAM—Continued

(In millions of dollars)

Mandatory Proposals	Estimate 1996	1997	1998	1999	2000	2001	2002	Total 1996–2002
Debt management savings:								
Non-paygo	....	....	–244	–851	–1,523	–2,224	–2,130	–6,972
Strengthen debt collection:								
Non-paygo	–327	–76	–65	–56	–56	–65	–36	–681
Refinance Bonneville Power Administration	....	–14	–14	–13	–12	–11	–25	–89
Prepayments (construction charges, Central Utah)	....	–75	–145	2	2	–37	2	–251
New funding for medical, cash, and job training assistance for Puerto Rico (in lieu of Sec 936)	....	57	247	499	758	982	1,142	3,685
Repeal Workers' Compensation Reimbursement to the United States Postal Service:								
Paygo	–37	–36	–34	–32	–31	–29	–28	–227
Non-paygo	37	36	9	....	....	....	....	82
Increase boat safety grants	9	26	38	51	51	51	51	277
Increase agency contributions to CSRS (non-paygo)	....	....	....	–1,034	–2,077	–3,128	–3,936	–10,175
Other non-paygo proposals (mainly pay raise)	....	224	321	366	410	411	430	2,162
Subtotal, debt management collection and other specified proposals	–318	141	107	–1,075	–2,485	–4,057	–4,537	–12,224
Subtotal, other mandatory	–9,187	–1,521	–1,726	–8,296	–10,333	–11,930	–32,239	–75,232
Tax cut[4]	**1,264**	**17,564**	**14,093**	**17,528**	**21,367**	**22,376**	**23,200**	**117,392**
Corporate loopholes and other:[4]								
Paygo	308	–5,660	–7,459	–9,413	–10,096	–10,480	–12,240	–55,040
Non-Paygo	....	98	129	131	133	135	137	763
Subtotal, corporate loopholes and other	**308**	**–5,562**	**–7,330**	**–9,282**	**–9,963**	**–10,345**	**–12,103**	**–54,277**
Total savings	**–7,645**	**3,868**	**–10,772**	**–26,153**	**–39,566**	**–55,293**	**–93,479**	**–229,040**
Memorandum:								
Subtotal, other mandatory (from above)	–9,187	–1,521	–1,726	–8,296	–10,333	–11,930	–32,239	–75,232
Impact of Medicare proposals on premiums for otherwise uninsured (HI)	....	123	178	226	286	332	380	1,525
Effects of VA and Medicare proposals on Medicaid	....	–15	–25	336	437	598	763	2,094
Health insurance for the temporarily unemployed	....	1,519	2,158	2,345	2,550	....	....	8,572
Health insurance reform: grants for health insurance cooperatives	....	25	25	25	25	25	....	125
Total, **other mandatory** including health provisions	**–9,187**	**131**	**610**	**–5,364**	**–7,035**	**–10,975**	**–31,096**	**–62,916**
Outlays:								
Mandatory paygo proposals	–3,740	–9,733	–17,699	–32,978	–47,024	–61,377	–97,992	–270,543
Mandatory non-paygo proposals	–5,578	1,391	105	–1,713	–4,306	–6,277	–6,872	–23,250
Discretionary included above[1]	103	486	478	701	757	718	668	3,911
Total outlays	–9,215	–7,856	–17,116	–33,990	–50,573	–66,936	–104,196	–289,882
Receipts:								
Paygo	1,570	11,626	6,215	7,706	10,874	11,508	10,580	60,079
Non-Paygo	....	98	129	131	133	135	137	763
Total receipts	1,570	11,724	6,344	7,837	11,007	11,643	10,717	60,842

[1] Includes savings to cover discretionary cap increases that fund administrative costs of implementing welfare reform provisions. The discretionary amounts shown in the memorandum are included in the welfare reform totals.

[2] Also affects Bureau of Land Management and Forest Service.

[3] Treatment of proposal for BEA scoring purposes are under review.

[4] For more detailed estimates on revenue proposals, see Table S–8.

Table S–8. EFFECT OF PROPOSALS ON RECEIPTS

(In billions of dollars)

	Estimate							Total 1996–2002
	1996	1997	1998	1999	2000	2001	2002	
Provide tax relief:								
Middle Class Bill of Rights:								
Provide tax credit for dependent children	–1.1	–9.7	–7.0	–8.9	–10.7	–10.7	–10.6	–58.6
Expand Individual Retirement Accounts (IRAs)	....	–1.4	–0.4	–0.7	–1.1	–1.6	–2.5	–7.7
Provide tax incentive for education and training	–0.2	–5.8	–5.6	–6.2	–7.5	–7.8	–8.0	–41.2
Subtotal, Middle Class Bill of Rights	–1.3	–17.0	–13.0	–15.8	–19.3	–20.0	–21.1	–107.5
Increase expensing for small business	....	–0.6	–0.5	–0.6	–0.7	–0.9	–0.8	–4.1
Provide estate tax relief for small business	....	....	–0.2	–0.2	–0.2	–0.2	–0.2	–1.0
Simplify pension plan rules [1]	*	–*	–0.1	–0.3	–0.3	–0.3	–0.3	–1.4
Provide tax incentives for distressed areas	–*	–*	–0.3	–0.6	–0.8	–0.9	–0.8	–3.4
Subtotal, Provide tax relief	–1.3	–17.6	–14.1	–17.5	–21.4	–22.4	–23.2	–117.4
Eliminate unwarranted benefits and adopt other revenue measures:								
Disallow interest deduction for corporate-owned life insurance policy loans	....	0.6	0.5	0.6	0.7	0.7	0.8	3.9
Deny interest deduction on certain debt instruments	....	0.1	0.1	0.2	0.2	0.3	0.4	1.3
Defer original issue discount deduction on convertible debt	....	*	*	*	*	*	0.1	0.2
Limit dividends-received deduction (DRD):								
Reduce DRD to 50 percent	....	0.2	0.4	0.4	0.4	0.4	0.4	2.0
Modify holding period for DRD	....	*	*	*	*	*	*	0.2
Interaction	....	–*	–*	–*	–*	–*	–*	–*
Extend pro rata disallowance of tax-exempt interest expense to all corporations	....	*	0.1	0.1	0.1	0.1	0.1	0.5
Require average-cost basis for stocks, securities, etc.	....	0.6	0.7	0.6	0.7	0.7	0.7	4.1
Require recognition of gain on certain stocks, indebtedness and partnership interests	....	0.2	–*	0.1	0.1	0.1	0.1	0.4
Change the treatment of gains and losses on extinguishment	....	*	*	*	*	*	*	*
Require reasonable payment assumptions for interest accruals on certain debt instruments	....	0.1	0.2	0.3	0.3	0.2	0.1	1.1
Require gain recognition for certain extraordinary dividends	....	–0.1	0.1	0.1	0.1	0.1	0.1	0.3
Repeal percentage depletion for non-fuel minerals mined on Federal and formerly Federal lands	....	0.1	0.1	0.1	0.1	0.1	0.1	0.5
Modify loss carryback and carryforward rules	–*	*	0.7	0.8	0.7	0.6	0.6	3.4
Treat certain preferred stock as "boot"	....	0.2	0.2	0.2	0.2	0.1	*	0.9
Repeal tax-free conversions of large C corporations to S corporations	....	*	*	*	*	*	0.1	0.2
Require gain recognition in certain distributions of controlled corporation stock	....	0.1	0.1	0.1	0.1	0.1	0.1	0.5
Reform treatment of certain stock transfers	....	0.1	0.1	0.1	0.1	0.1	0.2	0.8
Reformulate Puerto Rico and possessions tax credit	....	0.1	0.2	0.5	0.8	1.0	1.1	3.7
Expand Subpart F provisions regarding certain income	....	*	*	*	*	*	*	0.2
Modify taxation of captive "insurance" companies	....	*	*	*	*	*	*	0.1
Reform foreign tax credit	....	0.2	0.9	1.1	1.0	0.9	0.9	4.9
Modify rules relating to foreign oil and gas extraction income	....	*	*	0.1	0.1	0.1	0.1	0.4
Require thrifts to account for bad debts in same manner as banks	....	0.2	0.2	0.3	0.3	0.3	0.3	1.6
Reform depreciation under the income forecast method	....	0.1	0.1	0.1	*	*	*	0.3
Phase out preferential tax deferral for certain large farm corporations required to use accrual accounting	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.8
Initiate inventory reform:								
Repeal lower of cost or market method	....	0.2	0.3	0.3	0.3	0.1	*	1.2

Table S–8. EFFECT OF PROPOSALS ON RECEIPTS—Continued

(In billions of dollars)

	Estimate							Total 1996–2002
	1996	1997	1998	1999	2000	2001	2002	
Repeal components of cost method	....	0.2	0.2	0.2	0.2	0.2	0.2	1.1
Modify basis adjustment rules under Section 1033	*	*	*	*	*	*	*	0.1
Expand requirement that involuntarily converted property be replaced with property acquired from an unrelated party	....	*	*	*	*	*	*	*
Place further restrictions on like-kind exchanges involving personal property	....	*	*	*	*	*	*	0.1
Disallow rollover and one-time exclusion on sale of residence to the extent of previously claimed depreciation	....	*	*	*	*	*	*	*
Require registration of certain corporate tax shelters	....	....	*	*	*	*	*	*
Require reporting of payments to corporations rendering services to Federal agencies	....	*	*	*	*	0.1	0.1	0.3
Increase penalties for failure to file correct information returns	....	*	*	*	*	*	*	0.1
Extend IRS user fees	....	....	....	....	....	*	*	0.1
Apply failure-to-pay penalty to substitute returns	*	*	*	*	*	*	*	0.1
Repeal exemption for withholding on gambling winnings from bingo and keno in excess of $5,000	*	*	*	*	*	*	*	*
Require tax reporting for payments to attorneys	....	....	*	*	*	*	*	*
Repeal advance refunds of diesel fuel tax for diesel cars and light trucks [1]	*	*	*	*	*	*	*	0.1
Extend oil spill excise tax [1]	*	0.2	0.2	0.2	0.2	0.2	0.2	1.4
Impose excise taxes on kerosene as diesel fuel [1]	....	*	*	*	*	*	*	0.2
Permanently extend luxury excise tax on passenger vehicles [1]	....	....	....	....	0.2	0.3	0.3	0.7
Extend and modify FUTA provisions:								
Extend FUTA surtax [1]	....	....	....	0.8	1.2	1.2	1.2	4.4
Accelerate deposit of unemployment insurance taxes	....	....	....	....	....	....	1.3	1.3
Subtotal, Eliminate unwarranted benefits	0.1	3.8	5.6	7.5	8.3	8.5	9.9	43.6
Other provisions that affect receipts:								
Assess fees for examination of FDIC-insured banks and bank holding companies (receipt effect) [1]	....	0.1	0.1	0.1	0.1	0.1	0.1	0.5
Expand fees collected under the securities laws	....	0.3	0.3	0.3	0.3	0.4	0.4	2.0
Establish IRS continuous levy	....	0.4	0.4	0.4	0.3	0.2	0.1	1.8
Extend GSP and modify other trade provisions [1]	–0.6	–0.6	–0.5	–0.6	–0.6	–0.3	....	–3.2
Increase deduction for self-employed health insurance	–*	–0.1	–0.1	–0.2	–0.4	–0.5	–0.5	–1.9
Increase employee contributions to CSRS and FERS	0.1	0.4	0.5	0.6	0.6	0.6	0.6	3.4
Deter expatriation tax avoidance	*	0.2	0.2	0.4	0.4	0.5	0.5	2.3
Tighten rules for taxing foreign trusts	0.1	0.3	0.3	0.3	0.3	0.3	0.3	2.1
Extend corporate environmental tax [2]	....	1.0	0.6	0.7	0.7	0.7	0.8	4.5
Improve compliance by tax-exempt entities through intermediate sanctions and other measures	*	*	*	*	*	*	*	*
Modify Federal pay raise (receipt effect)	....	–0.1	–0.1	–0.1	–0.1	–0.1	–0.1	–0.8
Provide tax relief to troops in Bosnia	–*	–*	....	....	....	....	....	–*
Subtotal, Other	–0.4	1.8	1.8	1.8	1.7	1.9	2.2	10.7
Subtotal, Eliminate unwarranted benefits and other provisions that affect receipts	–0.3	5.6	7.3	9.3	10.0	10.3	12.1	54.3
Modify earned income tax credit (EITC)	*	0.3	0.4	0.4	0.4	0.4	0.4	2.3
Total effect of proposals [1]	**–1.6**	**–11.7**	**–6.3**	**–7.8**	**–11.0**	**–11.6**	**–10.7**	**–60.8**
(Paygo proposals)	(–1.6)	(–11.6)	(–6.2)	(–7.7)	(–10.9)	(–11.5)	(–10.6)	(–60.1)
(Non-Paygo proposals)	....	(–0.1)	(–0.1)	(–0.1)	(–0.1)	(–0.1)	(–0.1)	(–0.8)

Table S–8. EFFECT OF PROPOSALS ON RECEIPTS—Continued

(In billions of dollars)

	Estimate							Total
	1996	1997	1998	1999	2000	2001	2002	1996–2002
Extend expired trust fund excise taxes:								
Extend superfund trust fund excise taxes[1]	0.1	0.7	0.7	0.7	0.7	0.7	0.7	4.2
Extend airport and airway trust fund taxes[1]	0.4	4.7	4.9	5.2	5.5	5.9	6.2	32.8
Extend LUST trust fund taxes[1]	*	0.1	0.1	0.1	0.1	0.1	0.1	0.8
Total effect of extending expired trust fund excise taxes[1]	0.5	5.5	5.7	6.0	6.3	6.7	7.0	37.7

* $50 million or less.
[1] Net of income offsets.
[2] Net of deductibility for income tax purposes.

Table S–9. SUMMARY OF SUPPLEMENTAL, RESCISSION, AND ADJUSTMENT PROPOSALS

(In millions of dollars)

	1996 Budget Authority	Outlays					
		1996	1997	1998	1999	2000	2001
Adjustments to 1996 Continuing Resolution Levels:							
Executive Office of the President	1	1	....	....	....	....	....
Department of Agriculture	2	1	1	....	....	....	....
Department of Commerce	127	25	38	38	26	2	....
Department of Education	2,099	289	1,294	456	56	....	....
Department of Energy	38	11	21	6	....	....	....
Department of Health and Human Services	654	322	257	45	18	5	....
Department of Housing and Urban Development	685	56	101	137	109	131	53
Department of the Interior	166	111	54	2	....	....	....
Department of Justice	3	2	....	....	....	....	....
Department of Labor	579	114	348	95	24	....	....
Department of State	438	430	8	....	....	....	....
Department of the Treasury	12	2	5	5	....	....	....
Department of Veterans Affairs	275	195	36	22	16	6	2
Environmental Protection Agency	966	224	210	190	144	83	43
Social Security Administration	251	93	158	....	....	....	....
Other Independent Agencies	277	183	65	15	5	2	2
Subtotal, Adjustments to 1996 Continuing Resolution Levels	**6,573**	**2,059**	**2,595**	**1,011**	**398**	**229**	**100**
Discretionary Supplementals:							
Executive Office of the President	3	3	....	....	....	....	....
International Security Assistance	140	25	67	27	13	8	....
Agency for International Development	200	74	126	....	....	....	....
Department of Agriculture	12	12	....	....	....	....	....
Department of Defense—Military	621	492	82	30	11	1	....
Department of Energy	....	4	2	....	....	....	....
Subtotal, Supplemental Proposals	**976**	**610**	**277**	**57**	**24**	**9**	....
Total, Increases in Discretionary Programs	**7,549**	**2,669**	**2,872**	**1,068**	**422**	**238**	**100**
Decreases in Discretionary Programs:							
Department of Agriculture	–12	–1	–1	–4	–4	–2	....
Department of Defense—Military [1]	–1,961	–812	–617	–202	–27	–12	–5
General Services Administration	–3	–2	–1	....	....	....	....
Subtotal, Decreases in Discretionary Programs	–1,976	–815	–619	–206	–31	–14	–5
Total, All Proposals	5,573	1,854	2,253	862	391	224	95

[1] In addition to rescissions, this includes a provision that requires the Secretary of Defense to reduce 1996 budget authority by $600 million.

Table S–10. DISCRETIONARY PROPOSALS BY APPROPRIATIONS SUBCOMMITTEE

(In millions of dollars)

Appropriations Subcommittee	1995 Enacted		1996 Estimate		1997 Proposed		Change: 1996 to 1997	
	BA	Outlays	BA	Outlays	BA	Outlays	BA	Outlays
General Purpose Discretionary								
Agriculture and Rural Development	13,763	14,014	13,775	14,284	13,957	13,983	182	–301
Commerce, Justice, State, and the Judiciary	24,055	24,217	23,835	24,315	26,262	26,038	2,427	1,723
Defense	248,633	250,942	240,810	244,360	234,361	238,012	–6,449	–6,348
District of Columbia	712	714	712	712	770	770	58	58
Energy and Water Development	20,181	22,833	19,339	19,824	19,751	19,617	412	–207
Foreign Operations	13,724	13,195	12,415	13,475	12,961	13,238	546	–237
Interior and Related Agencies	13,668	14,439	12,571	13,301	12,790	13,436	219	135
Labor, HHS, and Education	67,752	68,121	66,987	70,286	71,586	72,450	4,599	2,164
Legislative	2,361	2,177	2,193	2,251	2,338	2,323	145	72
Military Construction	8,820	10,394	11,215	10,552	9,131	10,285	–2,084	–267
Transportation and Related Agencies	11,187	36,064	12,418	35,758	12,324	35,130	–94	–628
Treasury, Postal Service, and General Government [1]	11,527	12,071	11,432	11,618	12,791	12,521	1,484	984
Veterans Affairs, HUD, and Independent Agencies [1]	66,153	75,784	67,228	77,766	66,350	80,628	–1,003	2,781
Allowances	1	1	1	1	1,409	....	1,408	–1
Subtotal, General Purpose Discretionary	502,537	544,965	494,931	538,503	496,781	538,431	1,850	–72
Violent Crime Reduction Trust Fund (VCRTF)								
Commerce, Justice, State, and the Judiciary	2,328	659	3,959	2,026	4,829	3,526	870	1,500
Labor, HHS, and Education	11	4	45	19	61	38	16	19
Transportation and Related Agencies	....	....	....	....	10	1	10	1
Treasury, Postal Service, and General Government	39	30	77	73	97	93	20	20
Veterans Affairs, HUD, and Independent	....	....	....	....	3	3	3	3
Subtotal, VCRTF	2,378	694	4,081	2,118	5,000	3,661	919	1,543
Total, Discretionary	**504,915**	**545,659**	**499,012**	**540,621**	**501,781**	**542,092**	**2,769**	**1,471**
Memorandum: Amounts Excluded From Budget Resolution Allocations And Not Included Above								
Defense	....	....	621	492	....	82		
Foreign Operations	....	....	200	74	....	126		
Total, Proposed Emergencies	....	....	**821**	**566**	....	**208**		

[1] Reflects the proposed shift of Community Development Financial Institutions from the Veterans Affairs, HUD, and Independent Agencies subcommittee to the Treasury, Postal Service, and General Government subcommittee in 1997.

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Table S–11. BUDGET PROPOSALS UNDER CBO ASSUMPTIONS

(Uses CBO December economic and technical assumptions, in billions of dollars)

	Estimate							Total 1996–2002
	1996	1997	1998	1999	2000	2001	2002	
Baseline Deficit [1]	173.9	181.7	180.8	192.3	200.0	204.4	221.2	1,354.4
Savings:								
Discretionary	–8.8	–10.2	–15.6	–35.7	–51.4	–78.9	–96.6	–297.2
Mandatory:								
Medicare [2]	–2.6	–5.7	–9.1	–16.6	–22.9	–27.3	–40.1	–124.2
Medicaid [3]	....	0.9	–2.0	–6.5	–11.0	–16.1	–24.4	–59.1
Welfare reform [4]	–*	–4.7	–6.1	–6.5	–7.1	–7.1	–8.5	–39.9
Earned Income Tax Credit (EITC) [5]	–*	–0.7	–0.8	–0.8	–0.8	–0.9	–0.9	–5.0
Other mandatory	–5.6	–2.2	–1.5	–3.9	–4.3	–6.7	–24.6	–48.9
Total, mandatory	–8.2	–12.4	–19.5	–34.3	–46.1	–58.0	–98.5	–277.2
Tax cuts	3.3	13.9	16.0	18.8	25.3	20.0	2.3	99.7
Corporate loopholes and other	–1.8	–7.5	–9.1	–9.8	–10.4	–11.2	–12.7	–62.4
Total, policy proposal	–15.5	–16.1	–28.2	–61.1	–82.6	–128.1	–205.5	–537.1
Debt service	–0.4	–1.4	–2.6	–5.0	–8.7	–14.3	–23.4	–55.8
Total savings	–15.9	–17.5	–30.8	–66.1	–91.3	–142.4	–228.8	–592.9
Deficit/surplus	158.0	164.2	150.0	126.2	108.7	62.1	–7.6	761.5

* $50 million or less.

[1] OMB has adjusted CBO's adjusted December baseline to remove the directed scorekeeping of student loan administrative costs and to reflect the pending Supreme Court review of a lower court decision on accounting "goodwill." The estimates also reflect legislation enacted since the December baseline was released, assume Bureau of Labor Statistics (BLS) adjustments in the consumer price index, and include released and proposed emergency appropriations.

[2] Includes an additional savings proposal—reforming outpatient department payments to correct the so-called "formula-driven overpayment"—to account for technical differences, including different behavioral assumptions and other baseline differences, between the Administration and CBO.

[3] Because of technical baseline differences between the Administration and CBO, a less restrictive per capita index is used in order to achieve $59 billion in savings off of CBO's December 1995 baseline. Interactions with Medicare and VA health proposals are included in "other mandatory."

[4] Includes savings to cover discretionary cap increases that fund administrative costs of implementing welfare reform provisions.

[5] Includes EITC revenues.

Table S–12. BUDGET SUMMARY UNDER CBO ASSUMPTIONS

(Uses CBO December economic and technical assumptions, in billions of dollars)

	1996	Estimate 1997	1998	1999	2000	2001	2002	Total 1996–2002
Outlays:								
Discretionary	541.2	542.3	539.1	535.7	536.8	526.6	527.1	3,748.8
Mandatory:								
Social security	349.2	366.8	385.6	405.1	425.5	446.8	469.3	2,848.4
Medicare	173.9	189.2	203.9	216.7	231.9	250.9	263.5	1,529.9
Medicaid	97.2	108.1	116.0	123.4	131.9	141.2	149.0	867.0
Other	178.5	194.5	207.7	218.4	231.4	233.7	228.0	1,492.2
Subtotal, mandatory	798.9	858.6	913.2	963.6	1,020.7	1,072.7	1,109.8	6,737.4
Net interest	243.0	247.7	249.9	249.6	246.7	246.9	246.7	1,730.4
Total outlays	1,583.1	1,648.6	1,702.1	1,748.9	1,804.2	1,846.1	1,883.6	12,216.6
Revenues	1,425.1	1,484.4	1,552.2	1,622.7	1,695.5	1,784.0	1,891.2	11,455.1
Deficit/surplus	–158.0	–164.2	–150.0	–126.2	–108.7	–62.1	7.6	–761.5

Summaries by Agency/Function

SUMMARIES BY AGENCY/FUNCTION

Table S–13. DISCRETIONARY BUDGET AUTHORITY BY AGENCY

(In billions of dollars)

Agency	1993 Actual	1994 Actual	1995 Actual	1996 Estimate	1997 Proposed	1996–1997 Change	1993–1997 Change
Legislative Branch	2.3	2.3	2.4	2.2	2.4	0.1	0.1
The Judiciary	2.4	2.5	2.7	2.8	3.2	0.4	0.8
Executive Office of the President	0.2	0.2	0.2	0.2	0.2	*	–*
Funds Appropriated to the President	12.2[1]	11.5	12.1	11.1	11.4	0.3	–0.8
Agriculture	15.6	16.8	15.5	15.1	15.3	0.2	–0.3
Commerce	3.2	3.9	4.1	3.8	4.3	0.5	1.0
Defense—Military	262.6	250.5	257.4	252.6	243.4	–9.2	–19.2
Defense—Civil	3.9	4.0	3.4	3.3	3.4	0.1	–0.6
Education	23.7	24.5	24.5	24.1	25.6	1.5	1.9
Energy	19.3	18.7	17.2	16.4	16.3	–0.1	–2.9
Health and Human Services	30.1	33.0	33.3	32.8	35.0	2.2	4.8
Housing and Urban Development	25.5	26.3	20.1	20.3	21.7	1.4	–3.9
Interior	7.1	7.5	7.2	6.9	7.2	0.3	0.2
Justice	9.3	9.5	12.3	14.5	16.4	2.0	7.1
Labor	9.9	10.6	9.4	9.8	10.4	0.7	0.5
State	5.1	5.4	4.9	4.8	5.0	0.3	–*
Transportation	13.5	14.5	11.2	12.5	12.5	–*	–1.0
Treasury	10.1	10.3	10.7	10.5	11.5	1.0	1.4
Veterans Affairs	16.7	17.7	18.2	18.6	18.9	0.3	2.2
Environmental Protection Agency	6.9	6.6	6.0	6.7	7.0	0.3	0.1
General Services Administration	0.3	0.6	0.2	0.2	0.7	0.5	0.4
National Aeronautics and Space Administration	14.3	14.6	13.9	13.8	13.8	–*	–0.5
Office of Personnel Management	0.1	0.1	0.1	0.1	0.1	*	–*
Small Business Administration	0.9	1.9	0.8	0.7	0.8	0.1	–0.1
Social Security Administration	1.5	1.8	2.4	2.1	2.1	*	0.7
Other Independent Agencies	12.5	16.7	14.9	14.0	11.1	–2.8	–1.4
Allowances	....	....	....	0.1	1.9	1.8	1.9
Total	**509.4**	**512.1**	**504.9**	**499.8**	**501.8**	**1.9**	**–7.6**

* $50 million or less.

[1] Excludes increase of $12.3 billion in International Monetary Fund special drawing rights; authority that does not result in net outlays.

Table S–14. DISCRETIONARY OUTLAYS BY AGENCY

(In billions of dollars)

Agency	1993 Actual	1994 Actual	1995 Actual	1996 Estimate	1997 Proposed	1996–1997 Change	1993–1997 Change
Legislative Branch	2.3	2.3	2.2	2.3	2.4	0.1	*
The Judiciary	2.4	2.5	2.7	2.9	3.2	0.3	0.8
Executive Office of the President	0.2	0.2	0.2	0.2	0.2	*	*
Funds Appropriated to the President	13.4	12.1	12.2	12.3	12.1	–0.2	–1.3
Agriculture	14.6	15.9	15.9	15.6	15.3	–0.4	0.7
Commerce	2.9	3.0	3.5	3.9	4.1	0.2	1.2
Defense—Military	280.1	269.5	261.2	255.3	248.3	–7.0	–31.8
Defense—Civil	3.4	3.7	3.9	3.6	3.5	–0.1	0.1
Education	23.0	22.9	23.1	25.0	25.0	–*	2.0
Energy	18.0	19.3	19.7	16.8	16.7	–0.1	–1.3
Health and Human Services	27.7	31.1	32.3	31.9	33.3	1.4	5.6
Housing and Urban Development	25.0	27.6	31.8	30.2	33.2	3.0	8.2
Interior	7.1	7.3	7.5	7.2	7.3	*	0.2
Justice	9.2	9.4	10.3	12.0	14.9	2.9	5.7
Labor	9.5	9.8	10.0	10.2	10.2	*	0.7
State	5.1	5.3	5.0	5.0	5.0	*	–*
Transportation	32.7	35.1	36.5	36.1	35.4	–0.8	2.6
Treasury	9.9	10.1	10.6	10.4	11.3	0.8	1.3
Veterans Affairs	16.3	17.2	18.0	18.8	19.1	0.4	2.9
Environmental Protection Agency	6.1	6.1	6.6	6.5	6.7	0.1	0.6
General Services Administration	0.4	0.3	0.6	0.4	0.5	0.1	0.1
National Aeronautics and Space Administration	14.3	13.7	13.4	14.2	13.7	–0.5	–0.6
Office of Personnel Management	0.2	0.2	0.2	0.2	0.2	–*	–*
Small Business Administration	1.1	1.3	1.3	1.1	0.8	–0.2	–0.3
Social Security Administration	4.2	4.4	4.6	4.9	5.4	0.5	1.2
Other Independent Agencies	11.7	13.5	12.3	14.0	14.0	–*	2.2
Allowances	....	....	....	0.1	0.5	0.4	0.5
Total	**541.0**	**543.9**	**545.7**	**541.2**	**542.3**	**1.1**	**1.4**

*$50 million or less.

Table S–15. BUDGET AUTHORITY BY AGENCY

(In billions of dollars)

Agency	1995 Actual	Estimate						
		1996	1997	1998	1999	2000	2001	2002
Legislative Branch	2.7	2.5	2.7	2.7	2.8	2.8	2.9	2.9
The Judiciary	3.0	3.2	3.6	3.7	3.8	4.0	4.0	4.2
Executive Office of the President	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Funds Appropriated to the President	15.2	9.1	9.1	8.7	8.5	8.8	9.8	10.9
Agriculture	58.6	54.1	59.0	66.3	67.3	67.7	70.6	75.0
Commerce	4.0	3.7	4.2	4.4	4.7	5.9	4.2	4.4
Defense—Military	255.7	251.8	242.6	248.1	254.3	261.7	269.6	276.6
Defense—Civil	31.4	31.9	33.2	34.1	35.0	35.8	37.2	38.6
Education	32.4	30.4	30.2	30.7	31.8	32.8	33.8	34.9
Energy	15.0	14.3	14.2	13.7	12.1	10.8	12.6	12.6
Health and Human Services	302.0	317.2	355.2	378.3	398.5	417.1	441.5	469.2
Housing and Urban Development	19.8	17.9	21.9	27.4	29.1	30.5	33.3	36.1
Interior	7.5	6.9	7.1	7.1	6.9	6.7	7.0	7.5
Justice	12.9	15.4	17.3	18.4	19.5	19.6	18.5	17.5
Labor	32.2	34.8	36.5	37.4	38.2	39.3	40.7	42.3
State	5.3	5.2	5.5	5.3	5.1	4.9	5.3	5.5
Transportation	38.1	36.3	41.5	34.5	32.3	30.0	33.3	36.4
Treasury	353.8	367.1	371.4	372.6	376.1	378.5	379.9	383.0
Veterans Affairs	38.1	38.6	39.3	38.3	37.1	35.9	38.1	40.5
Environmental Protection Agency	5.7	6.5	6.8	6.9	7.1	7.2	7.4	7.6
General Services Administration	0.2	0.2	0.7	0.1	0.1	0.1	0.1	0.1
National Aeronautics and Space Administration	13.9	13.8	13.8	13.1	12.4	11.6	12.7	14.0
Office of Personnel Management	42.9	43.7	45.9	48.1	50.5	52.9	55.5	58.4
Small Business Administration	0.8	1.0	0.8	0.7	0.7	0.6	0.7	0.8
Social Security Administration	361.1	377.2	397.8	419.4	439.9	463.9	481.2	507.3
On-Budget	(33.3)	(31.3)	(35.4)	(39.5)	(41.7)	(46.5)	(43.9)	(48.9)
Off-Budget	(327.8)	(345.9)	(362.4)	(380.0)	(398.2)	(417.4)	(437.3)	(458.4)
Other Independent Agencies	28.7	29.2	24.3	24.5	23.9	22.3	25.8	26.0
On-Budget	(26.2)	(24.3)	(21.1)	(21.5)	(22.0)	(22.1)	(23.6)	(24.6)
Off-Budget	(2.6)	(5.0)	(3.2)	(3.1)	(1.9)	(0.3)	(2.3)	(1.4)
Allowances:								
Welfare reform	....	–0.4	–5.0	–6.5	–6.4	–7.0	–7.1	–8.6
Full funding for fixed assets	....	....	1.4	....	....	....	....	....
Unallocated discretionary fiscal dividend	....	....	....	....	....	....	8.7	9.0
Total Allowances	....	–0.4	–3.6	–6.5	–6.4	–7.0	1.6	0.4
Undistributed Offsetting Receipts	–137.6	–139.9	–143.0	–147.6	–152.5	–160.7	–165.8	–191.9
On-Budget	(–97.9)	(–97.1)	(–97.0)	(–98.0)	(–99.4)	(–103.4)	(–104.2)	(–125.4)
Off-Budget	(–39.7)	(–42.7)	(–46.0)	(–49.6)	(–53.2)	(–57.3)	(–61.6)	(–66.5)
Total	**1,543.3**	**1,571.6**	**1,638.4**	**1,690.9**	**1,738.9**	**1,783.7**	**1,861.8**	**1,920.9**
On-budget	(1,252.7)	(1,263.5)	(1,318.8)	(1,357.4)	(1,391.9)	(1,423.4)	(1,483.7)	(1,527.6)
Off-budget	(290.6)	(308.1)	(319.6)	(333.5)	(347.0)	(360.4)	(378.0)	(393.4)

* $50 million or less.

Table S–16. OUTLAYS BY AGENCY

(In billions of dollars)

Agency	1995 Actual	Estimate						
		1996	1997	1998	1999	2000	2001	2002
Legislative Branch	2.6	2.7	2.8	2.8	2.9	2.9	3.0	3.0
The Judiciary	2.9	3.3	3.6	3.6	3.8	3.9	4.0	4.1
Executive Office of the President	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Funds Appropriated to the President	11.2	10.4	10.3	10.1	10.0	9.5	9.4	10.2
Agriculture	56.7	54.8	55.9	58.0	58.7	59.0	60.8	63.2
Commerce	3.4	3.8	4.0	4.1	4.6	6.1	4.3	4.3
Defense—Military	259.6	254.3	247.5	243.9	246.5	253.9	256.6	264.9
Defense—Civil	31.7	32.3	33.3	33.9	34.7	35.5	36.7	38.2
Education	31.3	30.4	29.6	28.9	30.0	31.0	32.0	33.1
Energy	17.6	14.7	14.6	13.9	12.8	11.6	12.0	11.8
Health and Human Services	303.1	327.4	354.3	377.7	397.2	416.3	439.0	465.4
Housing and Urban Development	29.0	26.4	32.2	33.2	32.7	30.7	30.0	30.0
Interior	7.4	6.9	6.9	6.9	6.9	6.7	6.9	7.3
Justice	10.8	13.0	15.6	17.8	18.8	19.6	19.9	18.8
Labor	32.1	34.4	35.2	36.1	37.1	38.4	39.7	41.3
State	5.3	5.5	5.5	5.4	5.2	5.0	5.2	5.4
Transportation	38.8	39.0	38.1	37.9	35.9	33.8	33.2	34.5
Treasury	348.6	365.0	368.9	370.2	373.8	376.1	377.4	380.5
Veterans Affairs	37.8	37.6	39.8	39.3	37.1	37.4	36.3	40.1
Environmental Protection Agency	6.4	6.3	6.5	6.6	6.7	7.0	7.2	7.3
General Services Administration	0.7	0.5	0.7	0.5	0.2	0.1	0.1	0.1
National Aeronautics and Space Administration	13.4	14.2	13.7	13.8	12.6	11.9	12.3	13.4
Office of Personnel Management	41.3	42.4	44.6	46.7	48.7	51.2	54.0	57.1
Small Business Administration	0.7	1.0	0.4	0.4	0.4	0.4	0.4	0.5
Social Security Administration	362.1	377.3	398.1	418.0	438.3	462.1	479.6	505.5
On-Budget	(31.8)	(32.1)	(37.0)	(39.5)	(41.7)	(46.5)	(43.8)	(48.7)
Off-Budget	(330.4)	(345.2)	(361.1)	(378.5)	(396.6)	(415.7)	(435.7)	(456.8)
Other Independent Agencies	2.2	9.2	21.2	20.2	20.1	18.8	19.1	19.7
On-Budget	(4.2)	(9.5)	(18.5)	(20.1)	(21.5)	(19.3)	(20.9)	(21.5)
Off-Budget	(–2.0)	(–0.3)	(2.6)	(*)	(–1.5)	(–0.5)	(–1.8)	(–1.8)
Allowances:								
Government-wide debt collection	....	–0.3	–0.1	–0.1	–0.1	–0.1	–0.1	–*
Welfare reform	....	–0.3	–4.9	–6.5	–6.3	–7.0	–7.1	–8.6
Unallocated discretionary fiscal dividend	....	....	....	....	....	....	5.2	9.0
Total Allowances	....	–0.6	–5.0	–6.6	–6.4	–7.1	–2.0	0.3
Undistributed Offsetting Receipts	–137.6	–139.9	–143.0	–147.6	–152.5	–160.7	–165.8	–191.9
On-Budget	(–97.9)	(–97.1)	(–97.0)	(–98.0)	(–99.4)	(–103.4)	(–104.2)	(–125.4)
Off-Budget	(–39.7)	(–42.7)	(–46.0)	(–49.6)	(–53.2)	(–57.3)	(–61.6)	(–66.5)
Total	**1,519.1**	**1,572.4**	**1,635.3**	**1,675.9**	**1,716.9**	**1,761.4**	**1,811.5**	**1,868.3**
On-budget	(1,230.5)	(1,270.3)	(1,317.7)	(1,346.9)	(1,375.0)	(1,403.5)	(1,439.2)	(1,479.8)
Off-budget	(288.7)	(302.1)	(317.7)	(329.0)	(342.0)	(357.8)	(372.3)	(388.5)

* $50 million or less.

Table S–17. BUDGET AUTHORITY BY FUNCTION

(In billions of dollars)

Function	1995 Actual	Estimate						
		1996	1997	1998	1999	2000	2001	2002
National defense:								
Department of Defense—Military	255.7	251.8	242.6	248.1	254.3	261.7	269.6	276.6
Other	10.7	11.5	11.7	10.7	9.8	8.9	10.0	11.3
Total National defense	266.3	263.3	254.4	258.8	264.1	270.5	279.6	287.9
International affairs	25.9	16.3	16.6	15.8	15.2	15.0	16.6	18.2
General science, space, and technology	16.7	16.7	17.9	16.1	15.3	14.6	15.8	17.2
Energy	5.0	2.0	1.4	2.0	1.6	1.2	1.8	0.4
Natural resources and environment	21.0	20.7	21.9	21.6	21.2	20.6	21.4	22.6
Agriculture	8.6	6.9	8.5	8.7	8.1	7.1	7.0	7.9
Commerce and housing credit	11.8	9.3	12.1	12.7	12.0	11.6	13.3	13.2
On-Budget	(9.2)	(4.3)	(8.9)	(9.6)	(10.1)	(11.3)	(11.0)	(11.8)
Off-Budget	(2.6)	(5.0)	(3.2)	(3.1)	(1.9)	(0.3)	(2.3)	(1.4)
Transportation	39.3	37.1	42.5	35.5	33.2	30.9	34.2	37.4
Community and regional development	13.0	11.9	9.1	8.6	8.3	7.8	8.3	9.3
Education, training, employment, and social services	55.6	53.9	55.3	57.1	59.2	60.9	63.7	66.6
Health	117.0	110.9	134.7	141.2	146.7	152.1	157.3	163.5
Medicare	156.5	178.0	189.9	204.7	218.8	230.9	248.1	267.5
Income security	215.3	220.9	228.8	249.4	260.5	274.1	282.1	296.9
Social security	333.3	351.6	369.4	387.6	406.4	426.1	446.6	468.3
On-Budget	(5.5)	(5.8)	(7.0)	(7.6)	(8.2)	(8.7)	(9.3)	(9.9)
Off-Budget	(327.8)	(345.9)	(362.4)	(380.0)	(398.2)	(417.4)	(437.3)	(458.4)
Veterans benefits and services	38.2	38.8	39.5	38.5	37.2	36.0	38.2	40.7
Administration of justice	18.8	21.3	23.9	24.7	25.6	25.7	25.0	24.4
General government	13.2	13.3	14.8	14.0	14.2	14.4	15.0	15.5
Net interest	232.2	241.1	238.5	236.1	234.6	229.9	227.0	223.2
On-Budget	(265.5)	(277.5)	(277.9)	(278.5)	(280.1)	(278.7)	(279.6)	(279.8)
Off-Budget	(–33.3)	(–36.4)	(–39.4)	(–42.4)	(–45.5)	(–48.9)	(–52.6)	(–56.6)
Allowances	....	....	....	....	....	....	8.7	9.0
Undistributed offsetting receipts:								
Employer share, employee retirement (on-budget)	–28.0	–27.1	–27.5	–27.7	–29.3	–31.4	–33.7	–35.9
Employer share, employee retirement (off-budget)	–6.4	–6.3	–6.7	–7.1	–7.7	–8.4	–9.0	–9.9
Rents and royalties on the Outer Continental Shelf	–2.4	–2.7	–3.1	–2.6	–2.6	–2.6	–2.6	–2.6
Sale of major assets	....	–1.8	–0.1	....	....	....	....	–1.9
Other undistributed offsetting receipts	–7.6	–4.4	–3.6	–5.0	–3.8	–3.1	–2.6	–18.4
Total Undistributed offsetting receipts	–44.5	–42.3	–41.0	–42.4	–43.4	–45.5	–47.9	–68.7
On-Budget	(–38.0)	(–36.0)	(–34.3)	(–35.3)	(–35.7)	(–37.1)	(–38.9)	(–58.8)
Off-Budget	(–6.4)	(–6.3)	(–6.7)	(–7.1)	(–7.7)	(–8.4)	(–9.0)	(–9.9)
Total	**1,543.3**	**1,571.6**	**1,638.4**	**1,690.9**	**1,738.9**	**1,783.7**	**1,861.8**	**1,920.9**
On-budget	(1,252.7)	(1,263.5)	(1,318.8)	(1,357.4)	(1,391.9)	(1,423.4)	(1,483.7)	(1,527.6)
Off-budget	(290.6)	(308.1)	(319.6)	(333.5)	(347.0)	(360.4)	(378.0)	(393.4)

Table S–18. OUTLAYS BY FUNCTION

(In billions of dollars)

Function	1995 Actual	Estimate						
		1996	1997	1998	1999	2000	2001	2002
National defense:								
Department of Defense—Military	259.4	254.3	247.5	243.9	246.5	253.9	256.6	264.9
Other	12.6	11.3	11.3	10.9	10.0	9.1	9.4	10.6
Total National defense	272.1	265.6	258.7	254.8	256.5	262.9	266.0	275.5
International affairs	16.4	14.8	15.0	14.4	14.0	13.4	13.5	14.5
General science, space, and technology	16.7	16.9	16.6	16.6	15.6	14.9	15.3	16.5
Energy	4.9	3.2	2.2	1.9	1.9	1.5	1.6	0.3
Natural resources and environment	22.1	21.6	21.6	21.0	20.8	20.4	20.8	21.7
Agriculture	9.8	7.7	7.7	9.0	8.5	7.6	7.4	7.4
Commerce and housing credit	–14.4	–10.7	5.6	6.4	7.0	6.7	4.5	4.6
On-Budget	(–12.5)	(–10.4)	(3.0)	(6.4)	(8.5)	(7.2)	(6.4)	(6.4)
Off-Budget	(–2.0)	(–0.3)	(2.6)	(0.0)	(–1.5)	(–0.5)	(–1.8)	(–1.8)
Transportation	39.4	39.8	39.1	38.9	36.9	34.8	34.1	35.5
Community and regional development	10.6	12.9	11.8	10.5	9.5	8.3	8.0	8.1
Education, training, employment, and social services	54.3	54.1	53.5	53.8	55.6	57.2	59.5	62.2
Health	115.4	121.2	134.6	141.3	146.6	152.1	156.4	162.2
Medicare	159.9	177.6	190.1	204.9	218.4	231.1	248.4	267.0
Income security	220.4	228.3	236.7	244.9	253.4	264.3	269.3	281.6
Social security	335.8	350.9	368.1	386.2	404.8	424.4	445.0	466.7
On-Budget	(5.5)	(5.8)	(7.0)	(7.6)	(8.2)	(8.7)	(9.3)	(9.9)
Off-Budget	(330.4)	(345.2)	(361.1)	(378.5)	(396.6)	(415.7)	(435.7)	(456.8)
Veterans benefits and services	37.9	37.7	39.9	39.4	37.2	37.4	36.4	40.2
Administration of justice	16.2	18.8	22.0	24.0	24.9	25.6	26.1	25.4
General government	13.8	13.6	14.6	14.4	14.2	14.4	14.9	15.5
Net interest	232.2	241.1	238.5	236.1	234.6	229.9	227.0	223.2
On-Budget	(265.5)	(277.5)	(277.9)	(278.5)	(280.1)	(278.7)	(279.6)	(279.8)
Off-Budget	(–33.3)	(–36.4)	(–39.4)	(–42.4)	(–45.5)	(–48.9)	(–52.6)	(–56.6)
Allowances	....	–0.3	–0.1	–0.1	–0.1	–0.1	5.1	9.0
Undistributed offsetting receipts:								
Employer share, employee retirement (on-budget)	–28.0	–27.1	–27.5	–27.7	–29.3	–31.4	–33.7	–35.9
Employer share, employee retirement (off-budget)	–6.4	–6.3	–6.7	–7.1	–7.7	–8.4	–9.0	–9.9
Rents and royalties on the Outer Continental Shelf	–2.4	–2.7	–3.1	–2.6	–2.6	–2.6	–2.6	–2.6
Sale of major assets	....	–1.8	–0.1	....	....	....	....	–1.9
Other undistributed offsetting receipts	–7.6	–4.4	–3.6	–5.0	–3.8	–3.1	–2.6	–18.4
Total Undistributed offsetting receipts	–44.5	–42.3	–41.0	–42.4	–43.4	–45.5	–47.9	–68.7
On-Budget	(–38.0)	(–36.0)	(–34.3)	(–35.3)	(–35.7)	(–37.1)	(–38.9)	(–58.8)
Off-Budget	(–6.4)	(–6.3)	(–6.7)	(–7.1)	(–7.7)	(–8.4)	(–9.0)	(–9.9)
Total	**1,519.1**	**1,572.4**	**1,635.3**	**1,675.9**	**1,716.9**	**1,761.4**	**1,811.5**	**1,868.3**
On-budget	(1,230.5)	(1,270.3)	(1,317.7)	(1,346.9)	(1,375.0)	(1,403.5)	(1,439.2)	(1,479.8)
Off-budget	(288.7)	(302.1)	(317.7)	(329.0)	(342.0)	(357.8)	(372.3)	(388.5)

Other Summary Tables

OTHER SUMMARY TABLES

Table S–19. RECEIPTS BY SOURCE—SUMMARY

(In billions of dollars)

Source	1995 Actual	Estimate						
		1996	1997	1998	1998	2000	2001	2002
Individual income taxes	590.2	630.9	645.1	683.4	714.2	748.7	790.0	834.5
Corporation income taxes	157.0	167.1	185.0	201.7	212.7	225.4	236.7	245.8
Social insurance taxes and contributions	484.5	507.5	536.2	560.9	589.4	618.8	647.0	679.5
On-budget	(133.4)	(140.1)	(148.2)	(154.6)	(161.6)	(168.8)	(175.8)	(184.8)
Off-budget	(351.1)	(367.4)	(388.0)	(406.3)	(427.8)	(450.0)	(471.2)	(494.6)
Excise taxes	57.5	53.9	59.6	60.4	61.7	62.8	64.2	65.6
Estate and gift taxes	14.8	15.9	17.1	18.1	19.5	20.9	22.5	24.1
Customs duties	19.3	19.3	20.5	20.8	20.9	21.9	22.4	24.3
Miscellaneous receipts	31.9	32.1	31.8	32.7	34.2	35.3	37.1	38.4
Total receipts	**1,355.2**	**1,426.8**	**1,495.2**	**1,577.9**	**1,652.5**	**1,733.8**	**1,819.8**	**1,912.2**
On-budget	*(1,004.1)*	*(1,059.3)*	*(1,107.2)*	*(1,171.6)*	*(1,224.8)*	*(1,283.9)*	*(1,348.6)*	*(1,417.6)*
Off-budget	*(351.1)*	*(367.4)*	*(388.0)*	*(406.3)*	*(427.8)*	*(450.0)*	*(471.2)*	*(494.6)*

Table S–20. FEDERAL EMPLOYMENT IN THE EXECUTIVE BRANCH

(Civilian employment as measured by Full-Time Equivalents, in thousands)

Agency	1993 Base	Actual			Estimate		Change: 1993 base to 1997	
		1993	1994	1995	1996	1997	FTE's	Percent
Cabinet agencies:								
Agriculture	115.6	114.4	109.8	103.8	105.5	104.6	–11.1	–9.5%
Commerce	36.7	36.1	36.0	35.3	35.2	35.5	–1.2	–3.3%
Defense—military functions	931.3	931.8	868.3	821.7	800.0	767.4	–163.9	–17.6%
Education	5.0	4.9	4.8	4.8	4.8	4.6	–0.4	–8.1%
Energy	20.6	20.3	19.8	19.7	19.7	18.5	–2.1	–10.3%
Health and Human Services [1,2]	64.5	65.6	62.4	59.0	58.5	58.9	–5.6	–8.6%
Health and Human Services, exempt FTEs	0.5	0.5	0.5	0.3	0.3	0.3	–0.1	–28.7%
Social Security Administration [2]	65.4	64.8	64.5	64.6	64.8	64.8	–0.6	–0.9%
Housing and Urban Development	13.6	13.3	13.1	12.1	11.9	11.4	–2.2	–16.4%
Interior	79.3	78.1	76.3	72.0	70.5	72.2	–7.2	–9.0%
Justice	99.4	95.4	95.3	97.9	106.3	112.5	13.1	13.1%
Labor	18.3	18.0	17.5	16.8	16.7	17.1	–1.3	–6.8%
State	26.0	25.6	25.2	23.9	23.7	23.5	–2.5	–9.7%
Transportation	70.3	69.1	66.4	63.2	63.9	63.9	–6.5	–9.1%
Treasury	166.1	161.1	157.3	157.5	153.3	156.8	–9.3	–5.6%
Veterans Affairs [1]	227.0	229.1	227.8	223.1	218.2	217.3	–9.7	–4.2%
Veterans Affairs, exempt FTEs	5.4	5.1	5.3	5.4	5.5	5.5	0.2	3.3%
Other agencies (excluding Postal Service):								
Agency for International Development [1]	4.4	4.1	3.9	3.6	3.4	3.1	–1.3	–29.2%
Corps of Engineers	29.2	28.4	27.9	27.7	27.6	27.2	–2.0	–6.8%
Environmental Protection Agency	18.6	17.9	17.6	17.5	18.1	18.0	–0.6	–3.3%
Equal Employment Opportunity Commission	2.9	2.8	2.8	2.8	2.8	3.0	0.2	5.8%
Federal Emergency Management Agency	2.7	4.0	4.9	4.6	3.9	4.0	1.2	43.8%
Federal Deposit Insurance Corp./Resolution Trust Corp.	21.6	21.9	20.0	15.7	12.8	9.2	–12.3	–57.1%
General Services Administration	20.6	20.2	19.5	17.0	16.2	14.8	–5.9	–28.4%
National Aeronautics and Space Administration	25.7	24.9	23.9	22.4	21.8	21.2	–4.5	–17.5%
National Archives and Records Administration	2.8	2.6	2.6	2.4	2.5	2.5	–0.2	–8.5%
National Labor Relations Board	2.1	2.1	2.1	2.0	2.0	2.0	–0.1	–4.8%
National Science Foundation	1.3	1.2	1.2	1.2	1.3	1.3	–0.1	–6.2%
Nuclear Regulatory Commission	3.4	3.4	3.3	3.2	3.2	3.1	–0.3	–8.3%
Office of Personnel Management	6.2	5.9	5.3	4.2	4.0	3.6	–2.7	–42.7%
Panama Canal Commission	8.7	8.5	8.5	8.8	9.0	9.1	0.4	4.8%
Peace Corps	1.3	1.2	1.2	1.2	1.2	1.2	–0.1	–3.4%
Railroad Retirement Board	1.9	1.8	1.7	1.6	1.5	1.4	–0.4	–24.0%
Securities and Exchange Commission	2.7	2.7	2.7	2.7	2.8	2.8	–0.1	–2.2%
Small Business Administration	4.0	5.6	6.3	5.7	4.3	4.2	0.2	5.2%
Smithsonian Institution	5.9	5.5	5.4	5.3	5.3	5.3	–0.6	–10.4%
Tennessee Valley Authority	19.1	17.3	18.6	16.7	16.4	16.4	–2.7	–14.1%
United States Information Agency	8.7	8.3	8.1	7.7	7.3	7.1	–1.6	–18.6%
All other small agencies	16.1	15.4	15.0	15.1	14.8	14.8	–1.3	–8.3%
Allowance for welfare reform [3]	....	....	....	....	....	0.5	0.5	100.0%
Total, Executive Branch civilian employment	**2,155.2**	**2,138.8**	**2,052.7**	**1,970.2**	**1,940.8**	**1,910.5**	**–244.7**	**–11.3%**
Total, Defense	931.3	931.8	868.3	821.7	800.0	767.4	–163.9	–17.6%
Total, Non-Defense	1,223.9	1,207.1	1,184.4	1,148.4	1,140.8	1,143.1	–80.8	–6.3%
FTEs exempt from Ceiling	....	....	5.8	5.7	5.9	5.9	....	....
Total, Executive Branch subject to Ceiling	....	....	2,047.0	1,964.4	1,934.9	1,904.6	....	....
FTE Ceiling [4]	....	....	2,084.6	2,043.3	2,003.3	1,963.3	....	....
Total FTE reduction from the 1993 base	....	–16.4	–102.5	–185.0	–214.4	–244.7	....	....

[1] The Departments of Health and Human Services, Veterans Affairs, and the Agency for International Development have components that are exempt from FTE controls. [2] The Social Security Administration became a separate agency, no longer part of Health and Human Services, on March 31, 1995. [3] This allowance is for an estimated 500 FTEs for the Social Security Administration to conduct additional continuing disability reviews. [4] FTE limitations are set for the Executive Branch in the Federal Workforce Restructuring Act of 1994 (P.L. 103–226).

Table S–21. FEDERAL GOVERNMENT FINANCING AND DEBT [1]

(In billions of dollars)

	1995 Actual	Estimate						
		1996	1997	1998	1999	2000	2001	2002
Financing:								
Surplus or deficit (–)	–163.9	–145.6	–140.1	–98.0	–64.4	–27.5	8.3	43.9
(On-budget)	–226.3	–211.0	–210.4	–175.3	–150.2	–119.7	–90.6	–62.2
(Off-budget)	62.4	65.3	70.3	77.3	85.8	92.1	98.9	106.1
Means of financing other than borrowing from the public:								
Changes in: [2]								
Treasury operating cash balance	–2.0	–2.1						
Checks outstanding, etc. [3]	–2.8	–*	–3.3					
Deposit fund balances	0.9	0.1	–1.5					
Seigniorage on coins	0.7	0.7	0.6	0.7	0.7	0.8	0.8	0.8
Less: Net financing disbursements:								
Direct loan financing accounts	–7.0	–17.9	–20.8	–25.2	–27.3	–27.3	–26.7	–25.7
Guaranteed loan financing accounts	2.9	–0.4	0.8	–2.0	–2.2	–2.4	–1.9	–1.9
Total, means of financing other than borrowing from the public	–7.4	–19.6	–24.2	–26.5	–28.7	–29.0	–27.8	–26.8
Total, requirement for borrowing from the public	–171.3	–165.3	–164.3	–124.5	–93.1	–56.5	–19.6	17.1
Change in debt held by the public	171.3	165.3	164.3	124.5	93.1	56.5	19.6	–17.1
Debt Outstanding, End of Year:								
Gross Federal debt:								
Debt issued by Treasury	4,894.0	5,172.1	5,465.4	5,720.3	5,948.5	6,154.8	6,330.5	6,477.3
Debt issued by other agencies	27.0	35.2	33.4	30.1	30.0	29.9	29.6	29.2
Total, gross Federal debt	4,921.0	5,207.3	5,498.9	5,750.4	5,978.5	6,184.7	6,360.2	6,506.5
Held by:								
Government accounts	1,317.6	1,438.6	1,565.8	1,692.9	1,827.9	1,977.6	2,133.5	2,296.8
The public.	3,603.4	3,768.7	3,933.0	4,057.5	4,150.6	4,207.1	4,226.7	4,209.6
Federal Reserve Banks	374.1							
Other	3,229.3							
Debt Subject to Statutory Limitation, End of Year:								
Debt issued by Treasury	4,894.0	5,172.1	5,465.4	5,720.3	5,948.5	6,154.8	6,330.5	6,477.3
Less: Treasury debt not subject to limitation [4]	–15.6	–15.6	–15.6	–15.6	–15.6	–15.6	–15.6	–15.6
Agency debt subject to limitation	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Adjustment for discount and premium [5]	6.1	6.1	6.1	6.1	6.1	6.1	6.1	6.1
Total, debt subject to statutory limitation [6]	4,884.6	5,162.7	5,456.0	5,710.9	5,939.2	6,145.5	6,321.2	6,467.9

* $50 million or less.

[1] Treasury securities held by the public and zero-coupon bonds held by Government accounts are almost entirely measured at sales price plus amortized discount or less amortized premium. Agency debt is almost entirely measured at face value. Treasury securities in the Government account series are measured at face value less unrealized discount (if any).

[2] A decrease in the Treasury operating cash balance (which is an asset) would be a means of financing the deficit and therefore have a positive sign. An increase in checks outstanding or deposit fund balances (which are liabilities) would also be a means of financing the deficit and therefore have a positive sign.

[3] Besides checks outstanding, includes accrued interest payable on Treasury debt, miscellaneous liability accounts, allocations of special drawing rights, and, as an offset, cash and monetary assets other than the Treasury operating cash balance, miscellaneous asset accounts, and profit on the sale of gold.

[4] Consists primarily of Federal Financing Bank debt.

[5] Consists of unamortized discount (less premium) on public issues of Treasury notes and bonds (other than zero-coupon bonds) and unrealized discount on Government account series securities.

[6] The statutory debt limit is $4,900 billion.

Table S–22. COMPARISON OF ECONOMIC ASSUMPTIONS

(Calendar years)

	Projections						
	1996	1997	1998	1999	2000	2001	2002
Real GDP (chain-weighted): [1]							
1996 Mid-Session Review [2]	2.3	2.3	2.3	2.3	2.3	2.2	2.2
CBO December	2.2	2.3	2.3	2.3	2.3	2.3	2.3
1997 Budget	2.2	2.3	2.3	2.3	2.3	2.3	2.3
Chain-weighted GDP Price Index: [1]							
1996 Mid-Session Review [2]	3.1	3.1	3.1	3.1	3.1	3.1	3.1
CBO December	2.7	2.6	2.6	2.6	2.6	2.6	2.6
1997 Budget	2.8	2.7	2.7	2.7	2.7	2.7	2.7
Consumer Price Index (all-urban): [1]							
1996 Mid-Session Review	3.2	3.2	3.2	3.1	3.1	3.1	3.1
CBO December	3.2	3.1	3.0	2.9	2.9	2.9	3.0
1997 Budget	3.1	2.9	2.8	2.8	2.8	2.8	2.8
Unemployment rate: [3]							
1996 Mid-Session Review	5.9	5.8	5.8	5.8	5.8	5.8	5.8
CBO December	5.9	6.0	6.0	6.0	6.0	6.0	6.0
1997 Budget	5.7	5.7	5.7	5.7	5.7	5.7	5.7
Interest rates: [3]							
91-day Treasury bills:							
1996 Mid-Session Review	5.4	5.2	5.0	4.8	4.6	4.6	4.4
CBO December	5.3	5.0	4.7	4.2	3.9	3.9	3.9
1997 Budget	4.9	4.5	4.3	4.2	4.0	4.0	4.0
10-year Treasury notes:							
1996 Mid-Session Review	6.5	6.6	6.4	6.2	6.0	5.8	5.6
CBO December	5.8	5.6	5.5	5.5	5.5	5.5	5.5
1997 Budget	5.6	5.3	5.0	5.0	5.0	5.0	5.0

[1] Percent change, fourth quarter over fourth quarter.
[2] Adjusted to chain-weighted basis.
[3] Annual averages, percent.

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